Docket:	:	A.06-07-019
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Christine Walwyn
DRA Project Mgr.	:	Yoke Chan

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS IN KING CITY DISTRICT OF CALIFORNIA WATER SERVICE COMPANY

Test Year 2007-2008 and
Escalation Years 2008-2009 and 2009-2010
Application 06-07-019

For authority to increase water rates located in its
King City District serving portions of
King City and vicinity, Monterey County

San Francisco, California
December 1, 2006

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MEMORANDUM

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") prepared this report in the California Water Service Company's ("CWS") rate case proceeding A. 06-07-019. In this docket, the Applicant requests an order for authorization to increase rates charged for water service by $ 890,400 or 57.6 % in fiscal year 2007-2008; by $48,500 or 1.99% in fiscal year 2008-2009; and by $45,800 or 1.95% in fiscal year 2009-2010 in its King City District service area. DRA presents its analysis and recommendations associated with the Applicant's request.

Yoke Chan serves as DRA's project coordinator in this review and is responsible for the overall coordination in the preparation of this report. DRA's witnesses' prepared qualifications and testimony are contained in Appendix A of this report.

DRA's legal counsel for this case is Selina Shek.

DRA's recommendation on Cost of Capital is discussed under separate cover.

EXECUTIVE SUMMARY

CWS requests an increase of 57.6% in Test Year 2007-08 and 1.99% in Escalation Year 2008-09, whereas DRA recommends an increase of 27.2% in Test Year 2007-08 and inflationary increases for the Escalation Years.

Key Recommendations

DRA's recommendations are based on lower number of residential customers and lower Unaccounted for Water (Chapter 2), lower estimates of Operation and Maintenance expenses (Chapter 3), lower expenses of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7), a lower Cost of Capital of 9.54%, and lower Rate of Return on Rate Base of 8.30% for 2007-2008 and 2008-2009 (Chapters 1 and 13).

In addition, DRA recommends the following treatment to CWS' Special Requests as discussed further in Chapter 12:

(a) Water Quality

CWS requests that the Commission make a finding that the district water quality meets all applicable state and federal drinking water standards and the provisions of General Order 103. DRA has reviewed CWS' filings and agrees that CWS has complied with applicable water quality standards during the most recent three-year period.

(b) Water Revenue Adjustment Mechanism

CWS requests a revenue adjustment mechanism that decouples sales and revenues. This was excluded in the scope of this proceeding.

(c) Filing an offset rate increase in 2008 to reflect the General Office allocation adopted in CWS' 2007 GRC

CWS requests authorization to file an offset rate increase in 2008 to reflect the general office allocation adopted in its 2007 general rate case filing. DRA opposes CWS' request. This was excluded in the scope of this proceeding.

(d) An early ex parte order to update Rule 15

CWS requests an early ex parte order to update Rule 15 to increase the water supply special facilities fee in this district. DRA recommends the lot fee be increased from CWS' proposed $1,000 to $1,760.

(e) GO Synergy Memorandum Account

CWS requests to amortize the General Office synergies memorandum account adopted in D. 03-09-021 and the merger savings established in D. 04-04-041. DRA reviews and agrees with CWS' request.

(f) To amortize all balancing and memorandum accounts

CWS requests authority to amortize all balancing and memorandum account balances in this district. DRA agrees that all balancing and memorandum accounts should be amortized.

(g) An order to allow to capitalize certain well repair cost and amortize those improvements over the life of the well

CWS requests authorization to capitalize well repair cost and amortize those improvements over the life of the well. DRA recommended that CWS should record the well refurbishment and well treatment as maintenance expenses.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Yoke Chan
2	Water Consumption and Operating Revenues	Toni Canova
3	Operation and Maintenance Expenses	Vibert Greene
4	Administrative and General Expenses	Cleason Willis
5	Taxes Other Than Income	Joyce Steingass
6	Income Taxes	Joyce Steingass
7	Plant in Service	Clement Lan
8	Depreciation Expenses and Reserve	Joyce Steingass
9	Rate Base & Net to Gross Multiplier	Joyce Steingass
10	Customer Service	Katie Liu
11	Rate Design	Tatiana Olea
12	Special Requests	Lan, Chan, Thompson, Steingass
13	Escalation Year Increases	Yoke Chan

CHAPTER 1: OVERVIEW AND POLICY

A. INTRODUCTION

This report sets forth the analysis and recommendations of DRA pertaining to A. 06-07-019, CWS' general rate increase request for Test Year 2007-2008 and Escalation Years 2008-2009 and 2009-2010.

B. SUMMARY OF RECOMMENDATIONS

Tables 1-1 through 1-3 of the Summary of Earnings compare the results of operations for the Test Year 2007-2008 including revenues, expenses, taxes and ratebase.

C. DISCUSSION

The total revenues requested by CWS are as follows:

Year	Amount of Increase	Percent
2007-2008	$ 890,400	57.6%
2008-2009	$ 48,500	1.99%
2009-2010	$ 48,500	1.95%

CWS estimates that its proposed rates in the application will produce revenues providing the following returns:

Year	Return on Rate Base	Return on Equity
2007-2008	9.89%	12.37%
2008-2009	9.89%	12.37%
2009-2010	9.89%	12.37%

D. CONCLUSION

DRA recommends a revenue increase for the test year as follows (Escalation Years 2008-2009 and 2009-2010 are covered in Chapter 13):

Year	Amount of Increase	Percent
2007-08	$394,100	27.2%

The last general rate increase for CWS was authorized by D. 03-09-021 in Application A. 01-09-062 et. al, resulting in a rate of return on rate base of 8.90% in 2004. Present Rates used by DRA in this report are based on Advice Letter 1750, which became effective January 1, 2006 as authorized by D. 03-09-021.

A comparison of DRA's and CWS' estimates for rate of return on rate base for the Test Year 2007-2008 and Escalation Year at the present and the utility's proposed rates is shown below:

	RATE OF RETURN					
	DRA		CWS		Diff	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Present Rates	4.26 %	3.90%	2.47%	2.29%	- 1.79%	-1.62%
Proposed Rates	13.00%	12.88%	9.89%	9.89%	- 3.11%	-2.99%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,448.5	1,544.1	95.6	6.6%
Operating expenses:				
Operation & Maintenance	525.8	678.3	152.6	29.0%
Administrative & General	63.9	75.1	11.2	17.5%
G. O. Prorated Expense	263.3	278.0	14.7	5.6%
Dep'n & Amortization	206.5	252.8	46.3	22.4%
Taxes other than income	88.5	117.1	28.6	32.4%
State Corp. Franchise Tax	3.5	(16.8)	(20.3)	-586.6%
Federal Income Tax	66.8	(6.9)	(73.7)	-110.4%
Total operating exp.	1,218.2	1,377.6	159.4	13.1%
Net operating revenue	230.3	166.5	(63.8)	-27.7%
Rate base	5,401.4	6,737.4	1,336.0	24.7%
Return on rate base	4.26%	2.47%	-1.79%	-42.0%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	2,290.1	2,435.8	145.7	6.4%
Operating expenses:				
Operation & Maintenance	528.2	681.1	152.8	28.9%
Administrative & General	63.9	75.1	11.2	17.5%
G. O. Prorated Expense	263.3	278.0	14.7	5.6%
Dep'n & Amortization	206.5	252.8	46.3	22.4%
Taxes other than income	98.5	127.2	28.6	29.1%
State Corp. Franchise Tax	76.7	60.9	(15.9)	-20.7%
Federal Income Tax	350.7	294.4	(56.3)	-16.1%
Total operating exp.	1,587.9	1,769.3	181.5	11.4%
Net operating revenue	702.2	666.5	(35.8)	-5.1%
Rate base	5,401.4	6,737.4	1,336.0	24.7%
Return on rate base	13.00%	9.89%	-3.11%	-23.9%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	1,448.5	1,842.6	394.1	27.2%
Operating expenses:				
Operation & Maintenance	525.8	526.9	1.2	0.2%
Administrative & General	63.9	68.6	4.7	7.4%
G. O. Prorated Expense	263.3	263.3	0.0	0.0%
Dep'n & Amortization	206.5	206.5	0.0	0.0%
Taxes other than income	88.5	88.5	0.0	0.0%
State Corp. Franchise Tax	3.5	37.8	34.3	992.5%
Federal Income Tax	66.8	202.7	135.9	203.4%
Total operating exp.	1,218.2	1,394.2	176.0	14.5%
Net operating revenue	230.3	448.3	218.0	94.7%
Rate base	5,401.4	5,401.4	0.0	0.0%
1 Return on rate base	4.26%	8.30%	4.04%	94.7%

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on water consumption and operating revenues for CWS' King City District. DRA analyzed CWS' report (Report on the Results of Operations and Prepared Testimony for the King City District), supporting work papers, methods of estimating water consumption and operating revenue, data responses, and supplementary data before formulating its own estimates. Table 2-A presents a summary of estimates developed by DRA and CWS.

Table 2-A Summary of Projected Consumption and Revenues

	DRA		CWS		CWS Exceeds DRA	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Total Operating Revenues ($000)						
Present Rates	1,448.5	1,466.6	1,544.1	1,610.1	95.6	143.5
Utility Prop. Rates	2,290.1	2,270.4	2,434.6	2,482.8	144.5	212.4
Average Number of Customers						
Metered	2,398	2,438	2,617	2,767	219.0	329.0
Fire Protection	44	45	44	45	0.0	0.0
Water Sales By Customer Class (Kccf/yr)						
Residential	451.6	460.6	501.1	534.8	49.5	74.2
Business	240.2	240.2	240.2	240.2	0.0	0.0
Multi-Family	19.4	19.4	19.4	19.4	0.0	0.0
Industrial	24.5	24.5	24.5	24.5	0.0	0.0
Public Authority	44.5	44.5	44.5	44.5	0.0	0.0
Other	2.3	2.3	2.3	2.3	0.0	0.0
Irrigation	0.7	0.7	0.7	0.7	0.0	0.0
Water Sales Per Average Customer (CCF/Connection/Year)						
Residential	224.7	224.7	224.7	224.7	0.0	0.0
Business	787.6	787.6	787.6	787.6	0.0	0.0
Multi-Family	1,760.7	1,760.7	1,760.7	1,760.7	0.0	0.0
Industrial	1,359.6	1,359.6	1,359.6	1,359.6	0.0	0.0
Public Authority	1,059.2	1,059.2	1,059.2	1,059.2	0.0	0.0
Other	230.0	230.0	230.0	230.0	0.0	0.0
Irrigation	364.0	364.0	364.0	364.0	0.0	0.0

B. SUMMARY OF RECOMMENDATIONS

1) Number of Customers

DRA has reviewed CWS' estimating methodology for determining the number of customers in the Test Year. CWS estimates 150 additional residential customers per calendar year due to additional housing developments in the service area. DRA does not agree with CWS' high projection for new residential customers for this GRC period and will explain below. DRA does agree with CWS' projection for the number of customers in each of the other six classes of customers for the Test Year as shown in Tables 2-2 and 2-3.

2) Operating Revenues

DRA accepts CWS' revenue forecasting methodology. A detailed comparison for the Test Year is shown in Tables 2-6, and 2-7, with an explanation of the differences below.

3) Consumption

CWS used 10 years of monthly temperature and rainfall data to develop the regression models and forecasts. CWS adjusted the data to remove the first four inches of rain recorded and to account for the billing lag associated with the temperature data. Removing the first four inches of rainfall is consistent with CPUC practice. This adjustment is made to reflect the fact that, historically, rainfall above 4 inches during a month does not impact consumption. CWS' consultant used Econometric Views (E-Views) to specify the regression models and develop the forecasts. Using E-Views software to estimate consumption per customer is now standard practice and is consistent with the "New Committee Method" recommended in D.04-06-018, the General Rate Case Plan for Class A Water Companies. In instances where the regression model yielded unsatisfactory statistics, for example, in the Residential and Other categories, a different estimating methodology was selected. Unsatisfactory statistics are indicated by a

low R-squared, a Durbin-Watson statistic value not close to 2.00, and a low variable coefficient t-statistic.

While preparing its estimates, DRA reviewed and confirmed CWS' models and forecasts. DRA accepts CWS' general forecasting methodology. DRA's and CWS' estimates are generally derived from the average-use-per connection forecasted for 2006 and then incorporated customer growth in 2007 and 2008. These forecasts are then averaged to derive the fiscal Test Year estimates for 2007-08, and the escalation fiscal year 2008-09. Detailed discussions of the forecasts are below.

4) Unaccounted For Water ("UFW")

CWS used a three-year average unaccounted for water percentage of 12.00%. DRA calculated a five-year average of 10.18%. DRA recommends the Commission adopt the DRA percentage because it is more reasonable.

C. DISCUSSION

1) Number of Customers

DRA's and CWS' customer forecasts differ only in the growth estimate for residential customers. The forecasts are shown in Table 2-A above and at the end of the Chapter in Tables 2-2 and 2-3.

CWS estimates 150 additional residential customers per calendar year for residential growth rate. DRA projects a more reasonable growth of 40 new connections each year for this GRC. CWS gives very little explanation and has not provided convincing evidence for the estimated 150 additional residential customers per calendar year other than this increase is due to subdivisions in progress in the service area. CWS' also explains that they arrived at this estimate by reviewing the current homes being built and they must respond to growth.

DRA is basing this lower number on several factors. First, CWS' response to data request ALC-2, regarding the number of new connections so far for this year, indicated that as of the end of August , 2006, only 25 new connections have been added to the residential customer base. DRA annualized this number for the total year 2006 to be 40 new connections, which is very much below CWS' expected 150 for this year. The five-year average is only 30 which is also significantly lower.

Secondly, in an effort to check current development in King City, DRA contacted the city Planning Department and requested information on new housing permits for 2006. The Planning Department responded with a list of all the current permits that were finalized as of the end of September for new sewer connections. This list give a count of 61 completed permits for sewer hookups; sewer service is supplied by the city. The Planning Department said this list would equate to new water connections for the same locations. This list gives the addresses of each permit but does not distinguish whether they are for residential or commercial location, nor if they are locations in the CWS service area. This number annualized to end of 2006 computes to 81 new connections.

DRA has reviewed newspaper articles regarding the slow down in home sales in California[1] and in Monterey County in particular. According to several articles in the Monterey Herald[2], the county is seeing the same slow down in home sales as the rest of California. Recent articles explain how there are more homes on the market than at the same time last year, and the median home prices have dropped compared to a year ago. Sales have slumped by as much as 50% over the previous summer's sales, with more than a 50% increase in homes

[1] San Francisco Chronicle, www.sfgate.com/article, October 28, 2006.

[2] Monterey Herald Newspaper, www.montereyherald.com/mld/montereyherald/news, Sept. 4, 2006 and Oct. 27, 2006.

currently for sale on the market. Along with a drop in home sales is the significant drop in the number of building permits issued for new home construction in California, and in some areas as much a 50% reduction in building permit applications.

2) Operating Revenues

Revenues requested by CWS and recommended by DRA based on the present and proposed rates are shown above in Table 2-A and at the end of the Chapter in Tables 2-6 and 2-7. The major difference between CWS' and DRA's estimated revenues is in the residential customer class due to the difference in projected new customers. Because DRA estimates fewer new customers the projected revenues will be lower than CWS estimates. DRA's revenue projects are more realistic and should be adopted by the Commission.

3) Consumption

DRA reviewed CWS' forecasts and developed its forecasts utilizing the same set of historical data. DRA used an E-Views forecast where the statistics indicated good results (an R-squared close to 1.00, a Durbin-Watson statistic near 2.00, and significant t-statistics) from using an E-Views forecast. In other instances, DRA used an average of historical consumption similar to how CWS developed its forecast. DRA's and CWS' forecasts are shown in Table 2-A above, and at the end of the Chapter in Table 2-1.

The basic forecast equation starts with a constant term, a temperature variable, a rain variable, and a time variable. Depending on the statistics generated by this simple model adjustments may be made to the model to provide a superior estimate. Some of the modifications may include substituting the individual monthly temperature variables, including an autoregressive term, or including a dummy variable. Specific forecasts are discussed below.

(a) Residential

DRA used the same forecast method as CWS. The E-Views equation included a constant term, nine temperature variables (representing each month with January, February and March removed due to statistical error), and an autoregressive term. After reviewing the results of the water sales E-Views model, both DRA and CWS observed that the results were too low and did not fairly represent future water sales potential for the residential class. A five-year average calculation of historic consumption for metered sales per residential customer provides a better representation. DRA agrees with CWS' method of forecasting residential sales.

DRA calculated annual residential water consumption by multiplying the projected consumption per customer in hundreds of cubic feet (CCF) by the projected number of customers. DRA multiplied CWS' forecast result of 224.7 Ccf per customer by the average number of customers per year then divided by 1000 to estimate the total metered sales in thousand cubic feet (Kccf) for 2006, 2007, and 2008. To estimate the 2007-08 fiscal Test Year sales, an average of the 2007 and 2008 estimates was taken. DRA agrees with the resulting total water sales of 451.6 Kccf per year for residential customer class as shown above in Table 2-A.

(b) Business

DRA used the same forecast equation as CWS. The E-Views equation included a constant term, twelve temperature variables (representing each month), and a time variable term. The E-Views model returned statistics indicating good results (R-squared close to 1.00, a Durbin-Watson statistic value close to 2.00, and a high variable coefficient t-statistic). CWS used the resulting forecast of 787.6 Ccfs per connection per year, which is multiplied by the average number of customers divided by 1000, to derive the Total Metered Sales of 240.2 Kccf per

year for Fiscal Test Year 2007-08. DRA agrees with these results and makes no change to this forecast.

(c) Multifamily

DRA used the same forecast equation as CWS. The E-Views equation included a constant term, eight temperature variables (representing the months April through December due to removal of error terms in temperature variables for January, February and March), a time variable, and an autoregressive term. DRA concurs with CWS' forecast of 1760.7 Ccfs per connection per year and the calculated Total Metered Sales of 19.4 Kccf per year for the Fiscal Test Year of 2007-08.

(d) Industrial

DRA used the same forecast method as CWS. The E-Views standard model for estimating the industrial sales generated unsatisfactory statistics. Therefore, sales for the last three recorded years were used to forecast sales. Because of the variable recorded amounts for industrial sales before 2003, a five-year average would not provide a realistic sales amount in this customer class. A three year average gives a better representation of sales because the number of customers in those years did not change so the usage was stabilized for the past three years. CWS calculates 24.5 Kccf per year which then calculates to1359.6 Ccf per connection per year consumption for Fiscal Test Year 2007-08. DRA concurs with these consumption estimates and does not recommend a change to the method of forecasting industrial sales.

(e) Public Authority

DRA used the same forecast method as CWS. DRA used the E-Views model to forecast sales for this customer class. The E-Views equation included a constant term, eight temperature variables (removing January, February, March

and December due to error terms in temperature variables). CWS calculated total sales of 44.5 Kccf per year, which is then divided by the average number of customers and multiplied by 1000, to derive 1059.2 Ccf per connection per year Fiscal Test Year 2007-08. DRA finds this reasonable and concurs with CWS' forecast.

(f) Other

For Other customer class a suitable forecast E-Views model was not available. CWS used a five-year average to forecast 2.3 Kccf total sales per year. The total sales per year is then divided by the average number of customer, and multiply by 1000 to forecast 230.0 Ccf per connection per year for Fiscal Test Year 2007-08. DRA concurs and recommends this forecast be adopted by the Commission.

(g) Irrigation

CWS did not use an E-views model to forecast irrigation sales, but instead used a three-year average to derive 0.7 Kccf per year usage. There was a distinct decrease in the level of recorded sales beginning in 2003, so a three-year average from 2003 to 2005 was reasonable to use to forecast total sales. The calculated consumption per customer per year is 364.0 Ccf. DRA agrees with this method and the results.

4) Unaccounted For Water (UFW)

There are no flat rate customers in King City District, so the actual amount of Unaccounted for water can be measured and projected. UFW includes leakage of water from the system prior to sale and water used for system flushing and maintenance. CWS estimated the UFW at 12.00% based on a three-year average usage from 2003 to 2005 (see Table 2-B). CWS did not specify the reason for choosing those three years. Those three years, however, have the highest three

percentages of UFW out of the past six years. DRA recommends a five-year average calculation of 10.18% UFW which is still quite a bit above the standard 8% UFW used for most of CWS' other districts. DRA recommends that CWS work towards lowering the UFW percentage by proposing specific projects in their next GRC to address the issue of unaccounted for water.

Table 2-B - Recorded Unaccounted For Water Percentages

2001	2002	2003	2004	2005
8.77%	6.09%	9.20%	14.38%	12.44%

5) Total Water Consumption and Supply

Total consumption of water is the sum of metered and un-metered sales and unaccounted for water. The King City District does not have any residential flat rate customers, but does have a small number of private and public fire protection un-metered customers. The total supply is company owned wells. The total consumption and water supply levels for the Test Year and escalation year are shown in Tables 2-4 and 2-5.

D. CONCLUSION

1) Number of Customers

DRA concurs with CWS' estimated number of customers, except for residential customer forecast, for the Test Years.

2) Operating Revenues

DRA finds CWS' revenue forecast reasonable, except for residential revenues, and recommends the Commission adopt the DRA revenue forecasts shown in Tables 2-6 and 2-7.

3) Consumption

DRA finds CWS' forecasts of consumption reasonable and recommends the Commission adopt the numbers shown in Table 2-1.

4) Unaccounted For Water

DRA's five-year average percentage recommendation of 10.18% is more reasonable and should be adopted.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(CCF/CONN./YR)			
Residential	224.7	224.7	0.0	0.0%
Business	787.6	787.6	0.0	0.0%
Multiple Family	1,760.7	1,760.7	0.0	0.0%
Industrial	1,359.6	1,359.6	0.0	0.0%
Public Authority	1,059.2	1,059.2	0.0	0.0%
Other	230.0	230.0	0.0	0.0%
Irrigation	364.0	364.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	2,010	2,230	220	10.9%
Business	305	305	0	0.0%
Multiple Family	11	11	0	0.0%
Industrial	18	18	0	0.0%
Public Authority	42	42	0	0.0%
Other	10	10	0	0.0%
Irrigation	2	2	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	2,398	2,617	219	9.1%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	43	43	0	0.0%
Public Fire Protection	1	1	0	0.0%
Total flat rate connections	44	44	0	0.0%
Total Active Connections				
Include Fire Protection	2,442	2,661	219	9.0%
Exclude Fire Protection	2,398	2,617	219	9.1%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	2,050	2,380	330	16.1%
Business	305	305	0	0.0%
Multiple Family	11	11	0	0.0%
Industrial	18	18	0	0.0%
Public Authority	41	41	0	0.0%
Other	11	11	0	0.0%
Irrigation	2	2	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	2,438	2,767	329	13.5%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	44	44	0	0.0%
Public Fire Protection	1	1	0	0.0%
Total flat rate connections	45	45	0	0.0%
Total Active Connections				
Include Fire Protection	2,483	2,812	329	13.3%
Exclude Fire Protection	2,438	2,767	329	13.5%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	451.6	501.1	49.5	11.0%
Business	240.2	240.2	0.0	0.0%
Multiple Family	19.4	19.4	0.0	0.0%
Industrial	24.5	24.5	0.0	0.0%
Public Authority	44.5	44.5	0.0	0.0%
Other	2.3	2.3	0.0	0.0%
Irrigation	0.7	0.7	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	783.2	832.7	49.5	6.3%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 10.18% DRA 12.00% CWS	88.8	113.6	24.8	28.0%
Total delivered	871.9	946.3	74.3	8.5%
Supply				
Company Wells	872.0	946.3	74.3	8.5%
Total production	872.0	946.3	74.3	8.5%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	460.6	534.8	74.2	16.1%
Business	240.2	240.2	0.0	0.0%
Multiple Family	19.4	19.4	0.0	0.2%
Industrial	24.5	24.5	0.0	0.1%
Public Authority	44.5	44.5	0.0	0.0%
Other	2.3	2.3	0.0	0.0%
Irrigation	0.7	0.7	0.0	-3.8%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	792.2	866.4	74.2	9.4%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 10.18% DRA 12.00% CWS	89.8	118.2	28.4	31.7%
Total delivered	881.9	984.6	102.7	11.6%
Supply				
Company Wells	882.0	984.6	102.6	11.6%
Total production	882.0	984.6	102.6	11.6%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

OPERATING REVENUES

TEST YEAR 2007 - 2008

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Metered Revenues				
Residential	872.1	967.7	95.6	11.0%
Business	373.2	373.2	0.0	0.0%
Multiple Family	26.6	26.6	0.0	0.0%
Industrial	46.5	46.5	0.0	0.0%
Public Authority	77.0	77.0	0.0	0.0%
Other	12.7	12.7	0.0	0.0%
Irrigation	2.0	2.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total General Metered	1,410.1	1,505.7	95.6	6.8%
Flat Rate Revenues				
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	21.1	21.1	0.0	0.0%
Public Fire Protection	0.4	0.4	0.0	0.0%
Other	0.7	0.7	0.0	0.0%
Total Flat Rate	22.2	22.2	0.0	0.0%
Deferred Revenues	16.2	16.2	0.0	0.0%
Total revenues	1,448.5	1,544.1	95.6	6.6%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

OPERATING REVENUES

TEST YEAR 2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Metered Revenues				
Residential	1,319.9	1,464.4	144.5	10.9%
Business	637.8	637.8	0.0	0.0%
Multiple Family	46.3	46.3	0.0	0.0%
Industrial	84.9	84.9	0.0	0.0%
Public Authority	136.1	136.1	0.0	0.0%
Other	21.5	21.5	0.0	0.0%
Irrigation	3.3	3.3	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total General Metered	2,249.8	2,394.4	144.6	6.4%
Flat Rate Revenues				
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	22.9	22.9	0.0	0.0%
Public Fire Protection	0.4	0.4	0.0	0.0%
Other	0.8	0.8	0.0	0.0%
Total Flat Rate	24.1	24.1	0.0	0.0%
Deferred Revenues	16.2	16.2	0.0	0.0%
Total revenues	2,290.1	2,434.6	144.5	6.3%

CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES

A. INTRODUCTION

This chapter presents DRA's analyses and recommendations on Operation and Maintenance (O&M) expenses in the King City District(s) of California Water Service Company (CWS). Table 3-1 compared in detail DRA's and CWS O&M estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. All DRA's estimates are in Nominal Dollars. A comparison of total expense estimates at present rates for these years is shown in Table 3-A:

Table 3-A: A comparison of total O&M expense estimates at present rates: DRA's and CWS O&M estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009.

DRA: Fiscal Year 2007-2008	CWS: Fiscal Year 2007-2008	DRA: Fiscal Year 2008-2009	CWS: Fiscal Year 2008-2009	Utility Exceeds DRA Fiscal 2007-2008	Utility Exceeds DRA Fiscal 2007-2008
$525,800	$678,400	$526,600	$693,700	$152,700 29.0%	$167,100 31.7%

DRA's analyses of CWS estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 include the following analyses as listed below—[(1) through (6)]--of CWS recorded historical expense trends (2000-2005) and CWS estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009; using estimates from Test Years 2006, 2007 and 2008.

(1) A 5-Year Regression Analysis (2001-2005)
(2) A 3-Year Regression Analysis (2003-2005)
(3) 5-Year Averages (2001-2005)

(4) 3-Year Averages (2003-2005)

(5) Last Year Recorded Amounts as base Year 2005

(6) Annualization of the Last 8-months of recorded data (January 2006-August 2006).

DRA selected the methodology that best fits CWS recorded historical expense trends (2000-2005) for its analysis and estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. All DRA estimates are in Nominal Dollars.

The inflation factors used by DRA are recommended by the Commission's Division of Ratepayer Advocates (DRA) Energy Cost of Service Branch (ECOS), which has traditionally handled inflation issues for the Commissions. These factors were provided in a Memorandum from ECOS dated August 31, 2006. The Labor escalation factors are the Consumer Price Index for all Urban Consumers (CPI-U). The Non-Labor escalation factors are generated from a composite index of 10 Wholesale Price Indexes for material and supply expenses, and the (CPI-U). weighted 5% for services and consumer related items. The 60/40 factor is a composite index; derive from weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour Index. These indices are derived from the monthly DRI-WEFA publication, "U.S. Economic Outlook." The above indices and weightings are in conformance with an agreement reached between the Commission's Water Division and the California Water Association under the new rate case plan adopted in D.04-06-018.

B. SUMMARY OF RECOMMENDATIONS

DRA conducted independent analyses of CWS work papers and methods of estimating the Operating and Maintenance expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. CWS used a 5-year average of historical expenses adjusted for inflation for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 expenses.

DRA used alternative projection methods which were then compared with CWS projections and its historical operations. DRA projections are identified in Table 3-1 at the end of this Chapter. DRA estimated $509,800 and $518,100 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 expenses respectively. The methodologies used by DRA are discussed in the following sections. DRA recommends that the Commission adopts its O & M numbers as reasonable.

Table 3-B – Escalation Factors

C. DISCUSSION

	Compensation per hour Non-farm rate		Inflation Rates (%)				Composite Rates % 40/60 Split	
Year	Calendar Annual % Changes	Fiscal Annual % Changes	Calendar		Fiscal		Calendar	Fiscal
			Non-Labor	Labor	Non-Labor	Labor		
1997	3.6	4.5	0.6	--	0.3	--	1.8	2.0
1998	5.3	4.9	0.0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3.0
2001	2.7	2.8	0.0	3.4	0.0	3.1	1.1	1.1
2002	2.8	3.4	0.0	2.8	1.3	2.2	1.1	2.1
2003	4.0	4.3	2.5	1.6	4.2	2.0	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5.0	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4.0	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0.0	1.7	--	--	1.6	--

1) PURCHASED WATER.

CWS—King City does not record purchased water expense.

2) PRODUCED WATER: GROUND WATER EXTRACTION CHARGES

CWS—King City Groundwater Extraction Charges are zero ($0.0).

3) REPLENISHMENT ASSESSMENT

CWS—King City replenishment assessment is zero ($0.0).

4) PURCHASED POWER

Purchased power is the cost of electricity needed to operate a district, including the power used in pumping and delivering water. The estimate of purchased power varies from year to year, and month to month based on differences in local demand, maintenance schedules, and other operational considerations such as the quality of water delivered. This calculation also takes into account the historical ratio of electricity used to the amount of water pumped.

CWS's estimates of purchase power costs per production unit were based on usage patterns of each production component, using a model of power cost per kilowatt-hour at various levels of production. CWS model estimates costs per kilowatt-hour at current rates (Pacific Gas and Electric Company schedules effective May1, 2006) using the historical average of kilowatt-hours per unit of production and the last three years of recorded data (2003-2005). Because fixed components of the bill are spread over more units of production, the costs per kilowatt-hour generally decline with increasing uses. When the data (kilowatt-hour) show a specific pattern, CWS uses a forecast methodology to predict estimated power cost from the estimated kilowatt-hour demand. If no specific patterns are observed, CWS uses an average such as a 5-year average.

For King City, the last 3-years of data show a poor relationship between power consumption and average power cost; therefore CWS used the average unit power cost to forecast well power costs. The model average output is $0.1481 per kilowatt-hour.

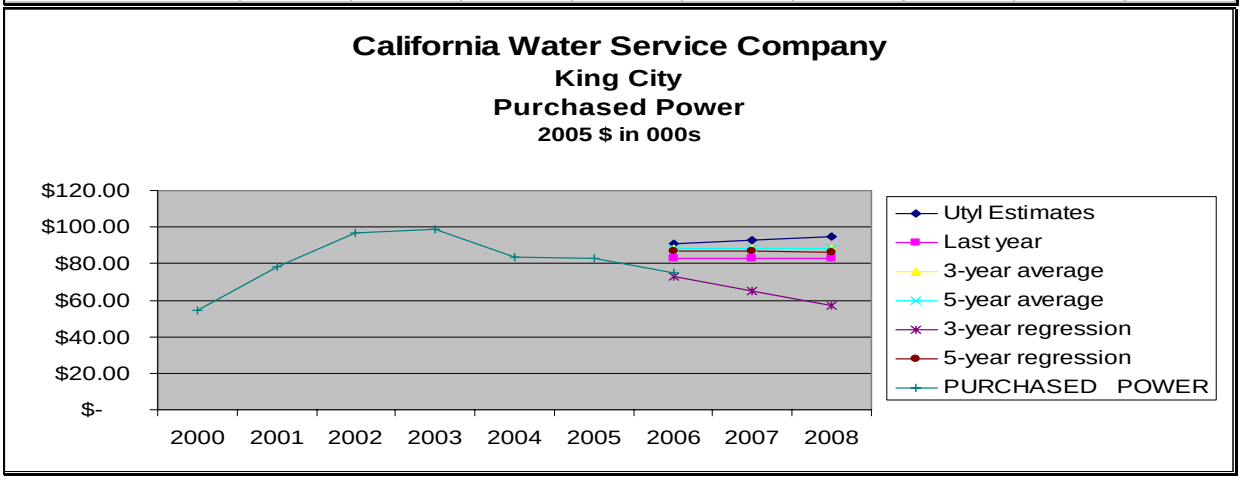
CWS estimated $100,000 and $104,000 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA would like to point out that the 2006 historical annualized estimate of $75,200--does not provide a good fit for the utility.

DRA believe its estimates of $94,500 and $95,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively are reasonable. DRA used a 5-year regression analysis to predict its estimates. Reference Table 3-C.

DRA ask that its estimates of $94,500 for Fiscal Year 2007-2008 and $95,900 for the Fiscal Year 2008-2009 be accepted.

Table 3-C: Purchased Power Analysis

California Water Service Company King City Purchased Power 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 90.72	$ 92.99	$ 95.05
Last year							$ 83.10	$ 83.10	$ 83.10
3-year average							$ 88.38	$ 88.38	$ 88.38
5-year average							$ 88.03	$ 88.03	$ 88.03
3-year regression							$ 72.77	$ 64.97	$ 57.17
5-year regression							$ 86.90	$ 86.52	$ 86.15
PURCHASED POWER	$ 54.69	$ 78.28	$ 96.73	$ 98.70	$ 83.32	$ 83.10	$ 75.22		



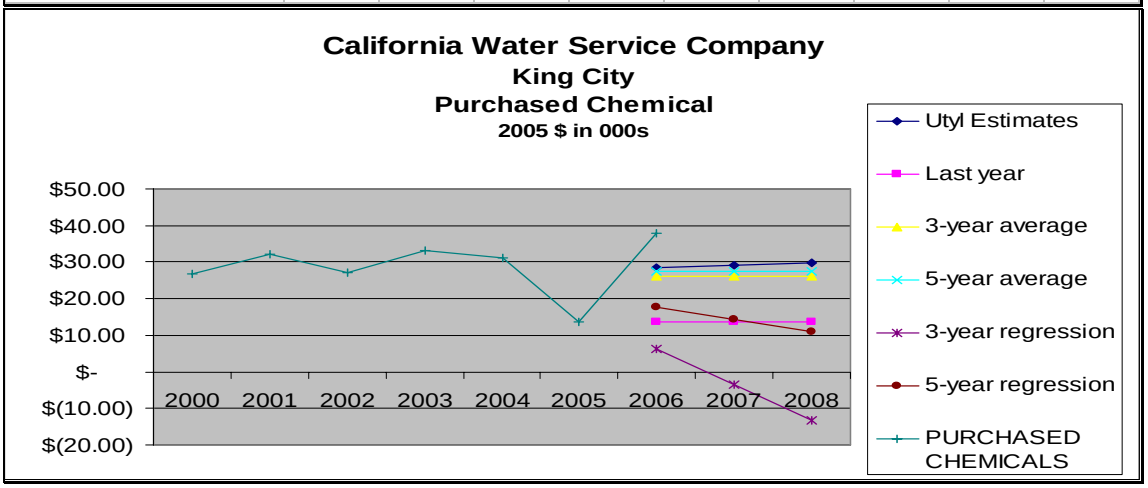
5) PURCHASED CHEMICAL

CWS Purchased Chemical expenses are a function of annual water productions and the cost of chemical. CWS estimates are based on the cost per unit of production multiplied by the test year production forecasts. CWS estimated expenses are $31,400 for Fiscal Year 2007-2008 and $32,000 for Fiscal Year 2008-2009 respectively. DRA's computed annualized 2006 estimate is $37,800;

since it is so high, DRA will accept the utility's estimates of $31,400 for Fiscal Year 2007-2008 and $32,000 for Fiscal Year 2008-2009 respectively. Reference Table 3-D.

Table 3-D: Purchased Chemicals

California Water Service Company King City Purchased Chemicals 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 28.47	$ 29.18	$ 29.83
Last year							$ 13.50	$ 13.50	$ 13.50
3-year average							$ 25.98	$ 25.98	$ 25.98
5-year average							$ 27.44	$ 27.44	$ 27.44
3-year regression							$ 6.32	$ (3.51)	$ (13.34)
5-year regression							$ 17.54	$ 14.24	$ 10.95
PURCHASED CHEMICALS	$ 26.65	$ 32.03	$ 27.21	$ 33.16	$ 31.29	$ 13.50	$ 37.83		



6) LABOR

Labor costs included payroll expenses, wages and salaries and overtime for district personnel. However, labor costs does not include benefits, the benefits costs are included in the General Office labor accounts. CWS capitalizes labor expenses for its districts. An historic five-year average of capitalized payroll was applied to the total payroll to calculate a capitalized payroll percentage of 8.15%. The capitalized payroll percentage was applied to total forecasted labor expenses for the base year 2006 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. Labor is broken down into O&M and A&G categories based on the 2005 recorded

costs for each category. CWS O & M payroll category included Operation Payroll and Maintenance Payroll. DRA estimates of A&G labor are based on a percentage allocation of the total (100%) Operating Payroll. DRA's estimates of A&G labor for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 are described in Chapter 4.

CWS did ask for additional staff for its King City district; in 2006 and 2007. Ref Table 3-E.

Table 3-E: CWS Request for Additional Workers

District	King City	King City
Year	2006	2007
Personnel	1 Utility worker/Relief Operator (Approved decision D. 03-09-021, for 2003. But worker was never hired for 2003.)	1 Utility worker/Relief Operator

Since the approved 2003 decision D. 03-09-021, CWS did not fill the requested vacancy; therefore, it is difficult for DRA to justify the need for 1 Utility worker/Relief Operator in 2006 and 1 Utility worker/Relief Operator in 2007.

7) OPERATION PAYROLL

Operation payroll: CWS used the last recorded year (2005) as its base year for estimating the labor costs. The payroll expenses are based on the existing district's payroll levels adjusted for new employees and escalated by CWS labor inflation factors which are 3.5% for 2006—based on union contracts—and 3.5% for 2007. There is no union contract for 2008. DRA challenged CWS Operation Payroll estimates for the Test Years 2006, 2007 and 2008 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. CWS estimated $310,000 and $315,900

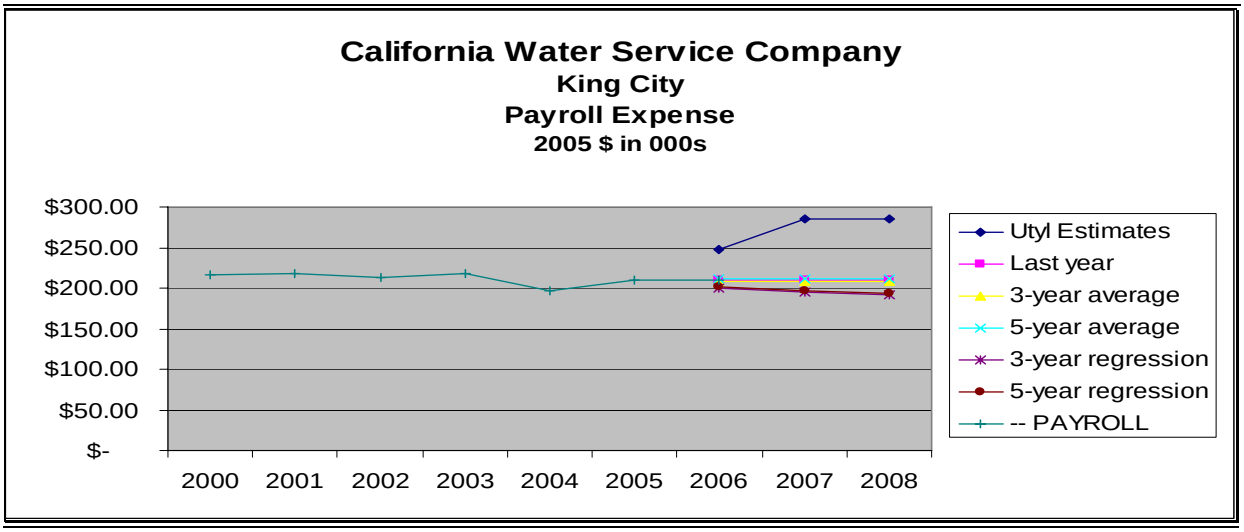
the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA would like to point out that DRA's computed annualized estimate of $210,600 for 2006 is no where close to CWS' estimates of $310,000 and $315,900 for the Fiscal Years 2007-2008 and 2008-2009 respectively.

DRA based its estimates on a 5-year regression which it feels is reasonable given the relative flatness of the historical data. DRA estimated $214,400 and $214,700 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Reference Table 3-F.

DRA ask that its estimates $214,400 and $214,700 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-F: Operation Payroll

California Water Service Company King City Other Payroll 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 247.67	$ 284.45	$ 284.45
Last year							$ 209.60	$ 209.60	$ 209.60
3-year average							$ 207.88	$ 207.88	$ 207.88
5-year average							$ 210.95	$ 210.95	$ 210.95
3-year regression							$ 199.69	$ 195.59	$ 191.50
5-year regression							$ 200.88	$ 197.53	$ 194.17
-- PAYROLL	$ 216.11	$ 217.92	$ 213.20	$ 217.79	$ 196.26	$ 209.60	$ 210.58		



8) POSTAGE

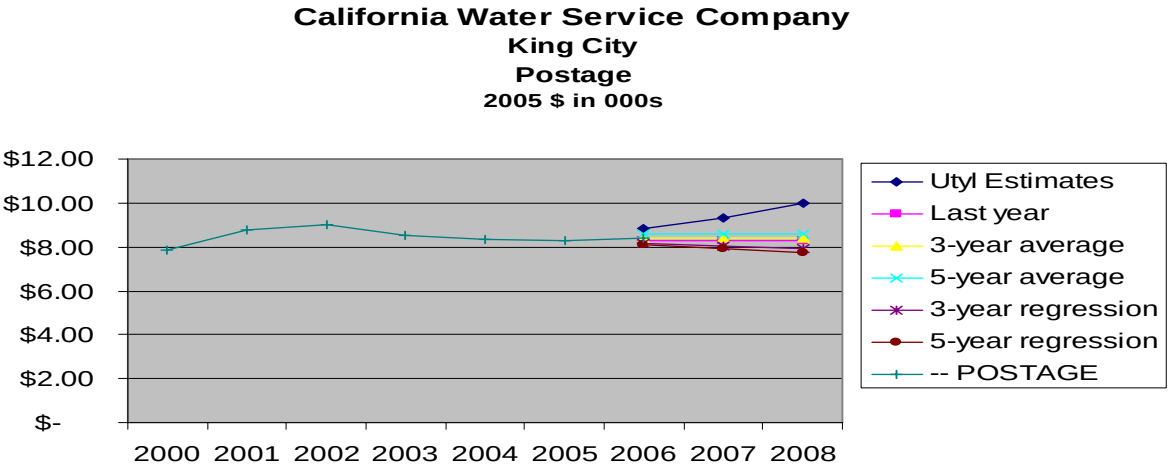
3.10 Postage costs are a function of postage rates, the number of customers and the number of annual mailings to each customer. CWS used the last recorded year (2005) adjusted for inflation. CWS estimated $10,300 and $10,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA would like to point out that DRA's computed annualized estimate of $8,400 for 2006 is no where close to CWS estimates of $10,300 and $10,500 for the Fiscal Years 2007-2008 and 2008-2009 respectively. Given the relatively flatness of the historical data, DRA used a 5-year average, adjusted for inflation. Reference Table 3-G.

DRA estimated $9,400 and $9,600 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively as compared to CWS annualized number--$8,400.

DRA ask that its estimates of $9,400 and $9,600 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-G: Postage Expenses

King City Postage 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 8.86	$ 9.31	$ 10.02
Last year							$ 8.30	$ 8.30	$ 8.30
3-year average							$ 8.39	$ 8.39	$ 8.39
5-year average							$ 8.60	$ 8.60	$ 8.60
3-year regression							$ 8.15	$ 8.03	$ 7.91
5-year regression							$ 8.09	$ 7.92	$ 7.75
-- POSTAGE	$ 7.83	$ 8.79	$ 9.03	$ 8.54	$ 8.32	$ 8.30	$ 8.41		



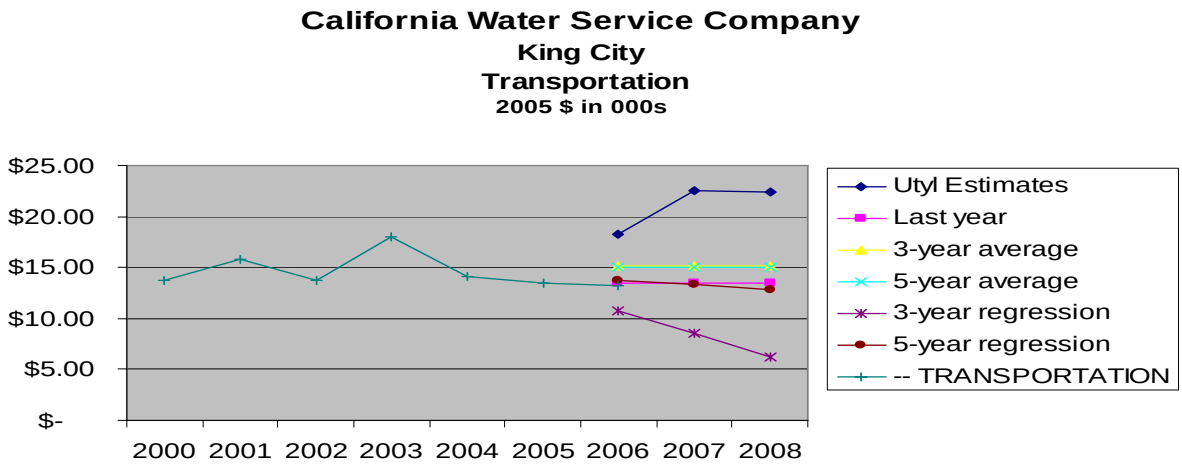
9) TRANSPORTATION

CWS estimated Transportation expenses at $23,900 and $24,300 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA would like to point out that DRA's computed annualized estimate of $13,200 for 2006 is no where close to CWS' estimates of $23,900 and $24,300 for the Fiscal Years 2007-2008 and 2008-2009 respectively. Given the historical trend of CWS data, DRA used a 5-year regression for its estimates as a reasonable approach. DRA estimated $14,300 and $14,100 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Reference Table 3-G.

DRA ask that its estimates of $14,300 and $14,100 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-H: Operation Transportation

California Water Service Company King City Transportation 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 18.26	$ 22.50	$ 22.37
Last year							$ 13.50	$ 13.50	$ 13.50
3-year average							$ 15.19	$ 15.19	$ 15.19
5-year average							$ 15.03	$ 15.03	$ 15.03
3-year regression							$ 10.73	$ 8.49	$ 6.26
5-year regression							$ 13.74	$ 13.31	$ 12.89
-- TRANSPORTATION	$ 13.79	$ 15.84	$ 13.72	$ 17.97	$ 14.12	$ 13.50	$ 13.19		



10) UNCOLLECTIBLES

Uncollectibles are payments due to CWS that the company has been unable to collect. The CPUC has recognized uncollectibles to be a normal cost of doing business. Test Year uncollectibles expenses are derived from the last 5-year average percentage of uncollectibles multiplied by the present and proposed revenue. CWS estimated Uncollectible expense rate at 0.29% for Fiscal Year 2007-2008 and 0.29% for Fiscal Year 2008-2009.

DRA accept CWS' methodology and the estimated Uncollectible expense rate at 0.29% for Fiscal Year 2007-2008 and 0.29% for Fiscal Year 2008-2009.

11) SOURCE OF SUPPLY

CWS estimated Source of Supply expenses at $1,500 and $1,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accept CWS estimates of $1,500 and $1,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively as reasonable.

12) PUMPING EXPENSES

This expense category track costs of equipment, materials and other Misc. pumping costs and outside services related to pumping. CWS estimated Misc. pumping costs at $15,200 and $15,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. However, DRA would like to point out that DRA's computed annualized estimate is $16,400 for 2006. This number is relatively close to CWS estimates of $15,200 and $15,500 for the Fiscal Years 2007-2008 and 2008-2009 respectively. DRA accepts CWS estimates of $15,200 and $15,500 for the Fiscal Years 2007-2008 and 2008-2009 respectively as reasonable.

13) WATER TREATMENT

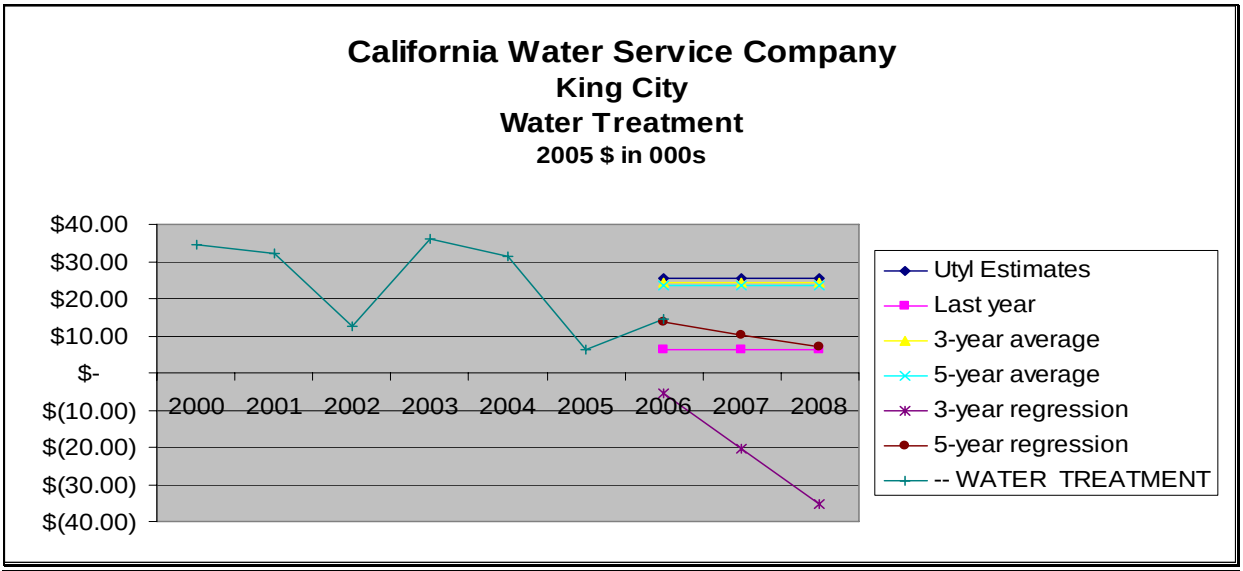
Water treatment costs tracks material, equipment maintenance, and outside services relating to the operation of treatment plant. Chemical costs are accounted for separately. CWS estimated Water Treatment expenses at $27,300 and $27,800 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA would like to point out that DRA's annualized estimate of $14,600 for 2006 is no where close to CWS estimates of $27,300 and $27,800 for the Fiscal Years 2007-2008 and 2008-2009 respectively. Because of the wide spread and steep decline in CWS' end-year recorded data, reference Table 3-H. DRA estimated $14,600 and $15,200 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009; DRA based its estimates on 2006 annualized data, adjusted for inflation. DRA reviewed the historical trend of CWS data. In 2003 the recorded amount was $approximately $35,000, in 2004 the recorded amount was $30,100 and in 2005 the recorded amount was approximately $6,000. Based on this trend, DRA believe that the 2006 annualized amount of $14,600 is a reasonable amount to use for the Fiscal

Year 2007-2008. That amount was escalated by 3.9% ($15,200) for Fiscal Year 2008-2009.

DRA ask that its estimates of $14,600 and $15,200 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted. Reference Table 3-I.

Table 3-I: Water Treatment

California Water Service Company King City Water Treatment 2005 $ in 000s	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 25.50	$ 25.50	$ 25.50
Last year							$ 6.20	$ 6.20	$ 6.20
3-year average							$ 24.47	$ 24.47	$ 24.47
5-year average							$ 23.61	$ 23.61	$ 23.61
3-year regression							$ (5.37)	$ (20.29)	$ (35.21)
5-year regression							$ 13.69	$ 10.39	$ 7.08
-- WATER TREATMENT	$ 34.59	$ 32.03	$ 12.58	$ 36.04	$ 31.18	$ 6.20	$ 14.64		



14)TRANSMISSION AND DISTRIBUTION

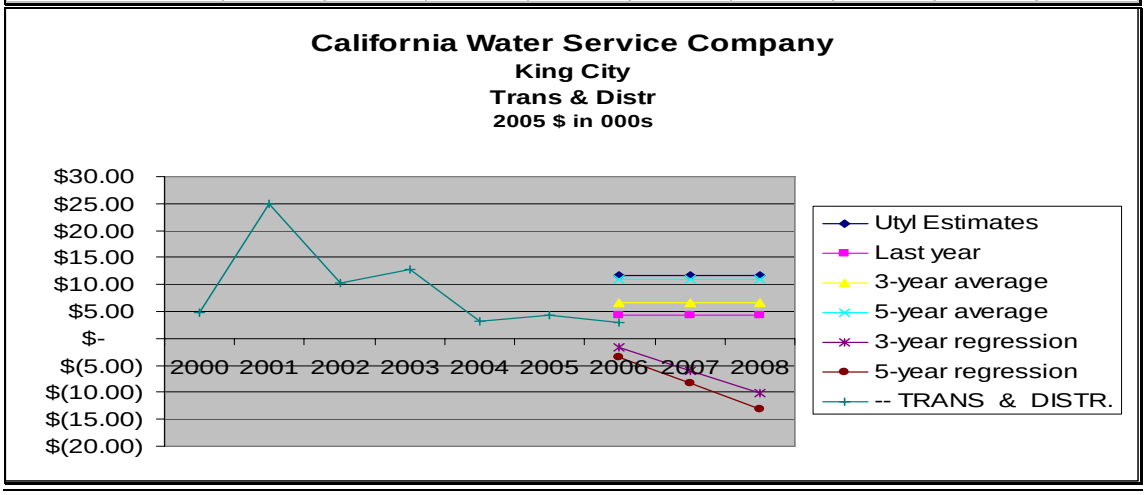
CWS estimated Transmission and Distribution Misc. expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 to be $12,400 and $12,700 respectively. However, DRA would like to point out that DRA's computed annualized estimate for 2006 is $3,000. This number is nowhere close to CWS

estimates of $12,400 and $12,700 for the Fiscal Years 2007-2008 and 2008-2009 respectively. DRA believes that by using a 3-year average adjusted for inflation, its estimates are reasonable. DRA estimated $7,300 and $7,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Reference Table 3-J.

DRA ask that its estimates of $7,300 and $7,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-J: Transmission and Distribution

California Water Service Company King City Trans & Distr 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 11.70	$ 11.70	$ 11.70
Last year							$ 4.30	$ 4.30	$ 4.30
3-year average							$ 6.70	$ 6.70	$ 6.70
5-year average							$ 11.05	$ 11.05	$ 11.05
3-year regression							$ (1.75)	$ (5.98)	$ (10.20)
5-year regression							$ (3.49)	$ (8.34)	$ (13.18)
-- TRANS & DISTR.	$ 4.67	$ 24.97	$ 10.18	$ 12.75	$ 3.05	$ 4.30	$ 3.04		



15) CUSTOMER ACCOUNTING

CWS used a 5-year inflation adjusted average to estimate Customer Accounting expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. CWS estimated Customer Accounting expenses for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 to be $39,400 and $40,100 respectively.

DRA accept CWS estimates of $39,400 and $40,100 for Fiscal Years 2007-2008 and 2008-2009 respectively as reasonable.

16)CONSERVATION

Under the Memorandum of Understanding on Urban Water Conservation., CWS must implement cost-effective programs when they are funded by the Commission. Programs break down for conservation and estimates are based on the Urban Water Management Plan. In 1991, the California Urban Water Conservation Council (CUWCC) crafted a Memorandum of Understanding (MOU) regarding Urban Water Conservation in California. Signatories of the MOU identified 14 Best Management Practices (BMPs) for water conservation—a very ambitious program However, fifteen years to date, the implementation of these programs is far from being successful. One of the reasons for this lag in implementation could be that there is no incentive for water utilities to conserve water; as demonstrated by CWS historical low spending on water conservation measures--$900 (5-year average, 2001-2005) and $1,200 (3-year average). CWS request that the Commission grant them 1.5% of revenue for an effective conservation program when the program benefits have not been adequately identified or included in the costs sponsored by CWS in this GRC seems unreasonable. Therefore, DRA used a 5-year regression for its estimates.

17)CWS CONSERVATION PROGRAM

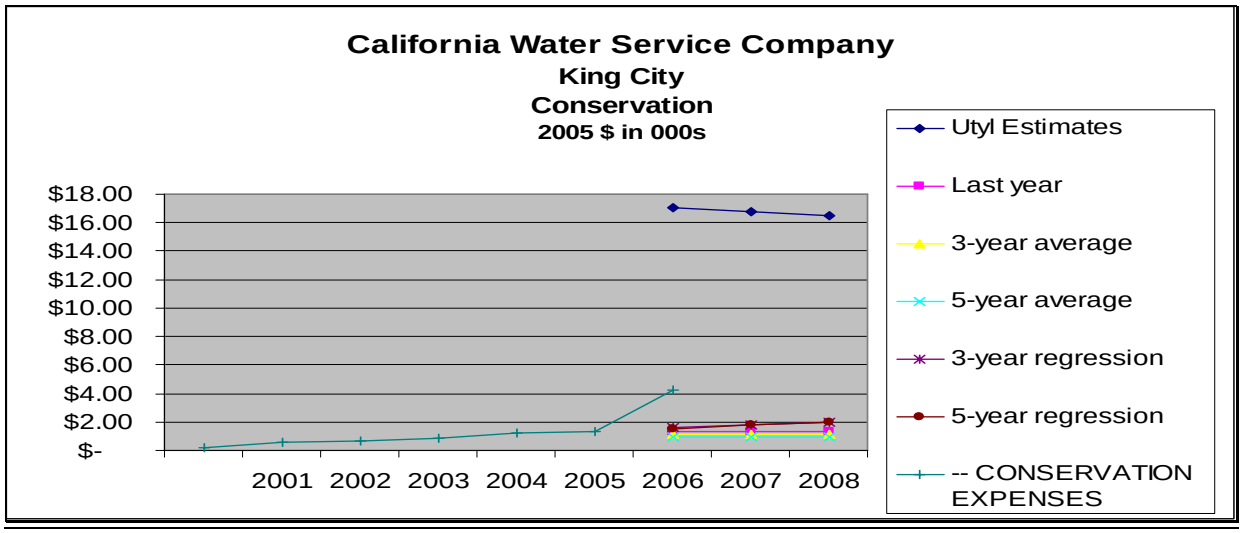
CWS estimated $17,100 for 2006, $16,800 for 2007 and $16,500 for 2008. CWS estimates for the Fiscal Years 2007-2008 and 2008-2009 are $17,700 and $18,000 respectively; the Fiscal Year 2007-2008 amount represent a 1361.5% increase over the last year 2005 recorded amount of $1,300 and the Fiscal Year 2008-2009 amount represent a 1200% increase over the 2006 inflation adjusted amount of 1,500. DRA's computed annualized number for 2006 is $4,200; nowhere near the CWS estimates of $17,100 for 2006, $16,800 for 2007 and

$16,500 for 2008. CWS estimates for the Fiscal Years 2007-2008 and 2008-2009 are $17,700 and $18,000 respectively. DRA based its estimates on a 5-year regression analysis; from which DRA estimated $1,600 for 2006, $1,900 for 2007 and $2,200 for 2008. For the Fiscal Years 2007-2008 and 2008-2009, DRA estimated $2,000 and $2,300 respectively. Ref. Table 3-K.

DRA ask that its estimates of $2,000 and $2,300 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-K Conservation Expenses

California Water Service Company									
King City									
Conservation									
2005 $ in 000s									
		2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 17.06	$ 16.77	$ 16.46
Last year							$ 1.30	$ 1.30	$ 1.30
3-year average							$ 1.15	$ 1.15	$ 1.15
5-year average							$ 0.94	$ 0.94	$ 0.94
3-year regression							$ 1.56	$ 1.77	$ 1.98
5-year regression							$ 1.55	$ 1.75	$ 1.95
-- CONSERVATION EXPENSES	$ 0.23	$ 0.58	$ 0.69	$ 0.89	$ 1.26	$ 1.30	$ 4.20		

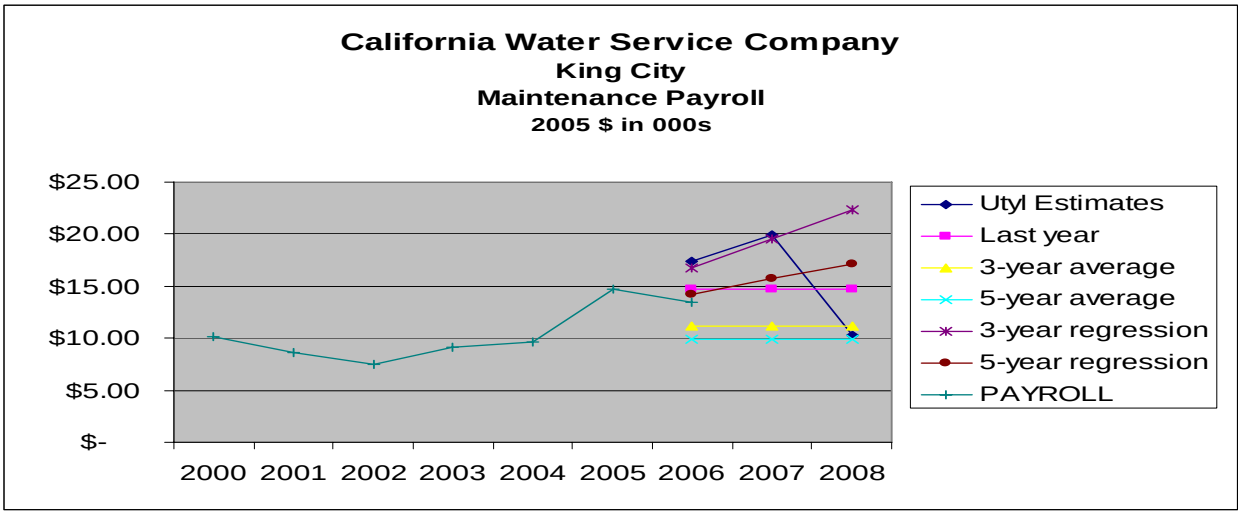


18)MAINTENANCE: PAYROLL

DRA challenged CWS' Maintenance Payroll estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. CWS used a 5-year inflation adjusted average. CWS estimated $16,400 and $16,700 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. However, DRA's computed annualized data for 2006 Payroll is $13,500; DRA estimated Maintenance Payroll for 2006 is $14,700, $16,800 for 2007 and $11,400 for 2008. For the Fiscal Years 2007-2008 and 2008-2009 DRA estimated $14,100 and $8,700 respectively. Reference Table 3-L. DRA ask that its estimates of $14,100 and $8,700 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-L Maintenance Payrolls

California Water Service Company King City Maintenance Payroll 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 17.37	$ 19.95	$ 10.28
Last year							$ 14.70	$ 14.70	$ 14.70
3-year average							$ 11.16	$ 11.16	$ 11.16
5-year average							$ 9.90	$ 9.90	$ 9.90
3-year regression							$ 16.72	$ 19.50	$ 22.28
5-year regression							$ 14.24	$ 15.69	$ 17.13
PAYROLL	$ 10.13	$ 8.57	$ 7.45	$ 9.14	$ 9.65	$ 14.70	$ 13.48		



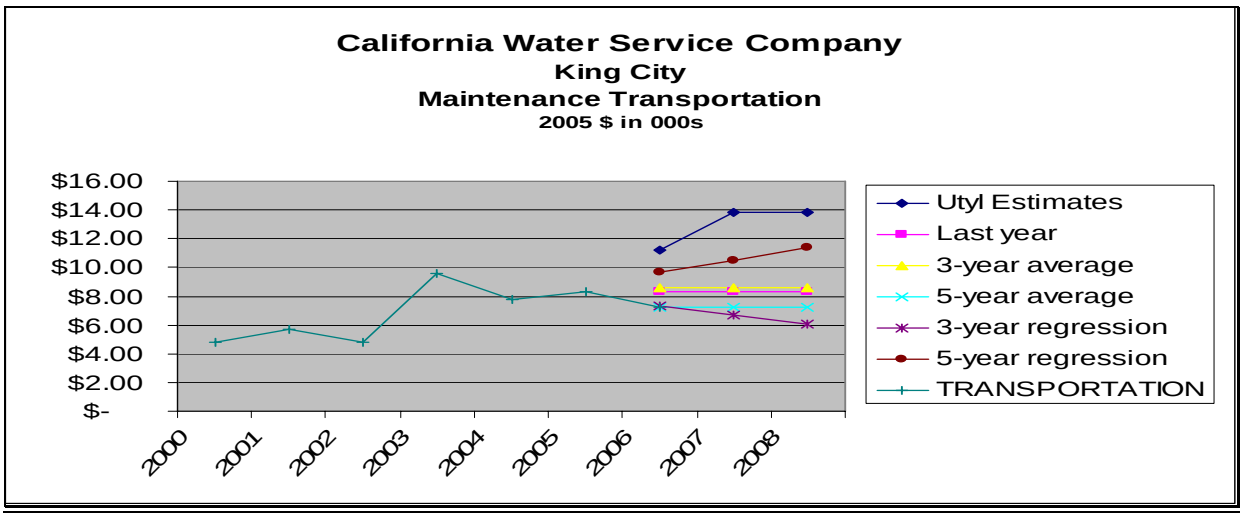
19)MAINTENANCE: TRANSPORTATION

CWS estimated $14,700 and $15,000 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. However, DRA's computed annualized data show $7,300 for 2006. DRA believes CWS Maintenance Transportation estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 are too high when compared to the 2006 annualized amount. Therefore, DRA based its estimates on a 5-year regression analysis. DRA believe it is reasonable to use the 2006 amount of $9,700 as the estimated amount for the Fiscal Years 2007-2008 and escalate the $9,700 by 3.9% ($10,500) for Fiscal Year 2008-2009.

DRA ask that its estimates of $9,700 and $10,500 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-M: Maintenance Transportation

California Water Service Company									
King City									
Maintenance Transportation									
2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 11.21	$ 13.86	$ 13.79
Last year							$ 8.30	$ 8.30	$ 8.30
3-year average							$ 8.54	$ 8.54	$ 8.54
5-year average							$ 7.22	$ 7.22	$ 7.22
3-year regression							$ 7.31	$ 6.69	$ 6.07
5-year regression							$ 9.70	$ 10.52	$ 11.35
TRANSPORTATION	$ 4.79	$ 5.67	$ 4.80	$ 9.54	$ 7.80	$ 8.30	$ 7.25		



20) MAINTENANCE: STORES.

CWS used a 5-year inflation adjusted average to estimate Stores expenses at $2,800 and $2,800 respectively for Fiscal Years 2007-2008 and 2008-2009.

DRA believes CWS approach is reasonable. Therefore, DRA accept CWS estimates of $2,800 and $2,800 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

21) MAINTENANCE: CONTRACTED MAINTENANCE

CWS used a 5-year inflation adjusted average to estimate Contracted Maintenance expenses. CWS estimates for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 are $50,900 and $51,900 respectively.

DRA believes CWS approach is reasonable. Therefore, DRA accept CWS estimates of $50,900 and $51,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

D. CONCLUSION

Table 3-A reflects the reasonableness of DRA methodology and analysis of CWS O & M expenses.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	1,448.5	1,544.1		
Uncollectible rate	0.29392%	0.29392%		
Uncollectibles	4.3	4.5	0.3	6.6%
Operation Expenses				
Purchased Water	0.0	0.0	0.0	0.0%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	94.5	100.0	5.5	5.8%
Purchased Chemicals	31.4	31.4	0.0	0.0%
Payroll	214.4	310.0	95.6	44.6%
Postage	9.4	10.3	0.9	9.6%
Transportation	14.3	24.0	9.7	67.8%
Uncollectibles	4.3	4.5	0.3	6.6%
Source of Supply	1.5	1.5	0.0	0.0%
Pumping	15.2	15.2	0.0	0.0%
Water Treatment	14.6	27.3	12.7	87.0%
Transmission & Distribution	7.3	12.5	5.2	71.2%
Customer Accounting	39.4	39.4	0.0	0.0%
Conservation	2.0	17.7	15.7	785.0%
Total Operation Expenses	448.3	593.6	145.4	32.4%
Maintenance Expenses				
Payroll	14.1	16.4	2.3	16.3%
Transportation	9.7	14.7	5.0	51.5%
Stores	2.8	2.8	0.0	0.0%
Contracted Maintenance	50.9	50.9	0.0	0.0%
Total Maintenence Expense	77.5	84.8	7.3	9.4%
Total O & M Expenses (incl uncoll)	525.8	678.4	152.7	29.0%
At proposed rates				
Operating Revenues	2,290.1	2,434.6		
Uncollectible rate	0.29392%	0.29392%		
Uncollectibles	6.7	7.2		
Total O & M Expenses (incl uncoll)	528.2	681.1	152.8	28.9%

CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations for California Water Service Company's A & G expenses including Payroll, Transportation Expenses, Rent, Administrative Charges Transferred, Non-specifics, Amortization of Limited Term Investments, and Dues and Donations Adjustments. A comparison of total expense estimates for fiscal years 2007 - 2009, is presented in Table 4-1.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimated total for A&G expenses is $63,900 for Fiscal year 2007-2008. CWS estimate for the same time period is $75,100, or 17.5% more than DRA's. DRA's estimated total for A&G expenses is $65,000 for Fiscal year 2008 - 2009. CWS' estimate for the same time period is $76,500, or 17.7% more than DRA's.

C. DISCUSSION

DRA conducted independent analysis of CWS work papers and methods of estimating the Administration & General expenses. Another DRA witness recommended disallowing the intangible plant portion of this district's expenses which are reflected in the Amortization of Limited Term Investment expenses, for the years 2006 through 2009. The differences in payroll are due to the adjustments made to total payroll as discussed in Chapter 3. DRA accepted the company's allocation factors for A&G payroll.

Concerning the Extended Service Protection, or ESP program which is included as the Administrative Charges Transferred; DRA adjusted it based upon the fact that Cal Water used 2005 numbers for Residential Metered hookups.

DRA decided to use Metered residential hookups for 2006; which reflects more recent data.

DRA's analysis of CWS' estimates for the Fiscal Year 2007-2008 included a five year trending analysis of the company's historical expenses which were compared to the company's requested dollar amounts for fiscal year's 2007 - 2008, and 2008-2009. This was done to ascertain the reasonableness of the company's request. All of DRA's estimates are in Nominal Dollars. DRA reviewed and agrees with all other CWS' estimates.

The inflation factors used by DRA are recommended by the Commission's Division of Ratepayers Advocates (DRA) Energy Cost of Service Branch (ECOS), which has traditionally handled inflation issues for the Commissions. These factors were provided in a memorandum from ECOS dated August 2006. The Labor escalation factors are the Consumer Price index for all Urban Consumers (CPI-U). The Non-Labor escalation factors are generated from a composite index of 10 Wholesale Price indexes for material and supply expenses, and the CPI-U weighted 5% for services and consumer related items. The 60/40 factor is a composite index; derived from weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour Index. These indices are derived from monthly DRI-WEFA publication, "U.S. Economic Outlook." The above indices and weightings are in conformance with an agreement reached between the Commission's Water Division and the California Water Association under the new rate case plan adopted in D.04-06-018. See Table 4-A.

TABLE 4 - A: ESCALATION FACTORS									
		Compensation per hour Non-Farm Rate:		Inflation Rates (%)				Composite Rates % 40/60 Split	
Year		Calender Annual % Changes:	Fiscal Annual % Changes:	Calender Non-Labor	Labor	Fiscal Non Labor	Labor	Calendar	Fiscal
1997		3.6	4.5	0.6	--	0.3	--	1.8	2
1998		5.3	4.9	0	2.3	0.4	1.9	2.1	2.2
1999		4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000		6.9	4.8	3.5	2.2	1.8	2.8	4.9	3
2001		2.7	2.8	0	3.4	0	3.1	1.1	1.1
2002		2.8	3.4	0	2.8	1.3	2.2	1.1	2.1
2003		4	4.3	2.5	1.6	4.2	2	3.1	4.2
2004		4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005		5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006		3.7	3.8	5.9	3.4	4.4	3.5	5	4.2
2007		3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008		3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009		4	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010		4.1	--	0	1.7	--	--	1.6	--

D. CONCLUSION

DRA recommends adopting DRA's numbers for this district.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Oper. Rev. less uncoll.	1,444.2	1,539.6		
Local Franchise Rate	1.1970%	1.1970%		
Franchise tax	17.3	18.5	1.2	7.2%
Payroll	25.7	36.6	10.9	42.4%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	18.4	18.4	0.0	0.0%
Admin Charges Trsf	(1.9)	(1.8)	0.1	-5.3%
Nonspecifics	21.2	21.2	0.0	0.0%
Amort of Limited Term Inv.	0.8	1.0	0.2	25.0%
Dues & Donations Adjustment	(0.3)	(0.3)	0.0	0.0%
Total A & G Expenses	63.9	75.1	11.2	17.5%
(incl. local Fran.)	81.2	93.6	12.4	15.3%
At proposed rates				
Oper. Rev. less uncoll.	2,283.4	2,427.4		
Local Franchise Rate	1.1970%	1.1970%		
Fran. tax	27.3	28.6	1.2	4.5%
Total A & G Expenses	63.9	75.1	11.2	17.5%
(incl. local Fran.)	91.2	103.7	12.4	13.6%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations of Taxes Other Than Income for CWS for Fiscal Years 2007 – 2008, and 2008 – 2009. Taxes Other Than Income include ad valorem tax (property tax), business licenses, franchise, and payroll taxes. Ad valorem taxes are property taxes paid on net utility plant. Payroll taxes generally include social security tax, Federal Insurance Contribution ACT (FICA) tax consisting of Old Age Benefits and Medicare, Federal Unemployment Insurance (FUI), State Unemployment Insurance (SUI).

DRA and CWS' estimates of Taxes Other Than Income for Fiscal Years 2007-2008 are included in the Table 5-1 at the end of the chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methodology that CWS proposes using to determine the estimated expenses for fiscal year 2007-2008, for ad valorem taxes. Additional differences in the taxes, or fees are due to differences between DRA and CWS estimates of plant additions and payroll expenses. A comparison of DRA's and the company's estimates is shown in Table 5-1.

C. CONCLUSION

1) Ad Valorem Taxes

Differences between DRA and CWS are attributable to the differences in Plant estimates.

2) Payroll Taxes

Differences between DRA and CWS are attributable to the differences in payroll estimates.

DRA recommends adopting its numbers for this district. See Table 5-1.

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	54.9	70.5	15.6	28.4%
Local Franchise (pres rates)	17.3	18.5	1.2	7.2%
Local Franchise (prop rates)	27.3	28.6	1.2	4.5%
Social Security Taxes	16.3	28.1	11.8	72.4%
Business License (pres rates)	0.0	0.0	0.0	0.0%
Business License (prop rates)	0.0	0.0	0.0	0.0%
Taxes other than income (present rates)	88.5	117.1	28.6	32.4%
Taxes other than income (proposed rates)	98.5	127.2	28.6	29.1%
State Tax Depreciation	377.0	425.7	48.7	12.9%
Transp. Dep. Adj.	(14.6)	(14.6)	0.0	0.0%
State Tax Deduct(pres rates)	362.4	411.1	48.7	13.4%
State Tax Deduct(prop rates)	362.4	411.1	48.7	13.4%
Federal Tax Depreciation	232.2	262.2	30.0	12.9%
State Income Tax	(10.5)	(10.5)	0.0	0.0%
Transp. Dep. Adj.	(14.6)	(14.6)	0.0	0.0%
Pre. Stock Div. Credit	0.3	0.3	0.0	0.0%
Am. Jobs Act Deduction	4.4	4.4	0.0	0.0%
Fed. Tax Deduct.(pres rates)	207.4	237.4	30.0	14.5%
Fed. Tax Deduct.(prop rates)	225.4	255.4	30.0	13.3%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This chapter presents DRA's analysis of Income Taxes for the King City District of California Water Service Company. Tables 6-1 and 6-2 compare in detail DRA's and CWS's tax deductions and taxes estimates for the Fiscal Year 2007 – 2008 and the escalation Year 2008 – 2009.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods CWS used to calculate Income Tax.

DRA's Lower O&M expenses, A&G, Prorated Expenses and interest calculations have made a difference in the final tax estimates. The differences are due to difference in Operation and Maintenance expenses, A&G Payroll, Prorated Expenses; and Average rate base and the Cap. Interest.

C. DISCUSSION

The tax deductions and credits in this proceeding were calculated in accordance with the normalization requirements of the Economic Recovery Act of 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates. Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been estimated and included into the general rate case in accordance with the requirements of Decision 87-09-026 dated September 10, 1987, Decision 87-12-028 dated December 9, 1987 and December 88-01-061 dated January 28, 1988.

Some of the provisions of TRA 86 have been incorporated into California Corporation Franchise Tax (CCFT) law in the California Bank and Corporation Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987).

The provisions have been estimated and integrated into the CCFT calculations for this general rate case.

DRA calculated tax depreciation for state and federal income tax purposes by applying the ratio of DRA's estimate of net plant to CWS's estimate of net plant to CWS's tax depreciation estimate. This methodology will be trued up when a Commission decision is issued in this case.

To calculate the interest deduction, DRA used its ratebase and multiplied it by the weighted cost of debt, whereas CWS reduced the ratebase by working cash before multiplying by the weighted cost of debt. DRA followed the policy outlined in D.03-12-040. Because Working Cash is a part of ratebase and therefore should be considered when calculating the deduction for interest on debt during the calculation of income taxes.

Decision 89-11-058 issued on November 22, 1989 requires that for ratemaking purposes the prior year's CFFT should be used in the calculation of Fiscal Year 2005-2006 and the escalation Year 2006-2007 Federal Income Tax (FIT). The tax requirements of that decision have been incorporated in this general rate case by both DRA and CWS. The prior year's CCFT was used as a deduction in arriving at the Fiscal Year 2007-2008 and the escalation Year 2008-2009 estimated FIT.

Corporations may deduct dividends paid on special preferred stock issues or issues made to redeem such preferred stock. The Preferred Stock Dividend Credit tax deduction is reflected in DRA's calculations.

CWS has also applied the tax incentive on production from the American Job Creation Act of 2003 on CWS table 7-C. DRA agrees.

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007 - 2008

(PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,448.5	1,544.1	95.6	6.6%
Deductions:				
O & M expenses	525.8	678.3	152.6	29.0%
A & G expenses	63.9	75.1	11.2	17.5%
G. O. Prorated expenses	246.9	260.2	13.3	5.4%
Taxes not on Income	88.5	117.1	28.6	32.4%
Transportation Deprec Adj	(14.6)	(14.6)	0.0	0.0%
Interest	120.8	191.4	70.6	58.4%
Income before taxes	417.2	236.5	(180.7)	-43.3%
Calif. Corp. Franchise Tax				
State Tax Deductions	(377.0)	(425.7)	-48.7	12.9%
Taxable income for CCFT	40.2	(189.2)	(229.4)	-570.1%
CCFT Rate	8.84%	8.84%		
CCFT	3.6	(16.7)	(20.3)	-570.1%
Addl. Tax .06% per D.84-05-036	(0.1)	(0.1)	0.0	0.0%
Adjusted CCFT	3.5	(16.8)	(20.3)	-586.6%
Federal Income Tax				
Tax Depreciation	232.2	262.2	30.0	12.9%
State Corp Franch Tax	(10.5)	(10.5)	0.0	0.0%
Pref Stock Dividend Credit	0.3	0.3	0.0	0.0%
Am. Jobs Act Deduction	4.4	4.4	0.0	0.0%
Taxable income for FIT	190.8	(19.8)	(210.6)	-110.4%
FIT Rate	35.00%	35.00%		
FIT	66.8	(6.9)	(73.7)	-110.4%
Total FIT & CCFT	70.2	(23.7)	(93.9)	-133.7%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	2,290.1	2,435.8	145.7	6.4%
Deductions:				
O & M expenses	528.2	681.1	152.8	28.9%
A & G expenses	63.9	75.1	11.2	17.5%
G. O. Prorated expenses	246.9	260.2	13.3	5.4%
Taxes not on Income	98.5	127.2	28.6	29.1%
Transportation Deprec Adj	(14.6)	(14.6)	0.0	0.0%
Interest	120.8	191.4	70.6	58.4%
Income before taxes	1,246.3	1,115.5	(130.8)	-10.5%
Calif. Corp. Franchise Tax				
State Tax Deductions	(377.0)	(425.7)	-48.7	12.9%
Taxable income for CCFT	869.3	689.7	(179.7)	-20.7%
CCFT Rate	8.84%	8.84%		
CCFT	76.8	61.0	(15.9)	-20.7%
Addl. Tax .06% per D.84-05-036	(0.1)	(0.1)	0.0	0.0%
Adjusted CCFT	76.7	60.9	(15.9)	-20.7%
Federal Income Tax				
Tax Depreciation	232.2	262.2	30.0	12.9%
State Corp Franch Tax	7.5	7.5	0.0	0.0%
Pref Stock Dividend Credit	0.3	0.3	0.0	0.0%
Am. Jobs Act Deduction	4.4	4.4	0.0	0.0%
Taxable income for FIT	1,001.9	841.1	(160.9)	-16.1%
FIT Rate	35.00%	35.00%		
FIT	350.7	294.4	(56.3)	-16.1%
Total FIT & CCFT	427.4	355.3	(72.1)	-16.9%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

DRA's and CWS estimates for Plant in Service for the test year 2007 and the escalation year 2008 are shown in Tables 7-1 and 7-2 at the end of this chapter.

DRA reviewed and analyzed CWS' testimony, application, workpapers, capital project details, estimating methods, and responses to various DRA data requests. DRA also conducted a field investigation of most of the proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA's and CWS estimates of specific and non-specific plant additions are attributed to the items as tabulated on Page 7-2.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that 1) plant additions for six specific projects in 2006 be adjusted, disallowed or deferred to 2007, 2) plant additions for three specific projects in 2007 be disallowed or deferred to the next general rate case, 3) plant additions for two specific projects in 2008 be deferred to the next general rate case, and 4) plant additions for non-specifics in 2006 through 2008 be adjusted as described in Section C below. Based on these recommendations, DRA's estimates for the years 2006, 2007 and 2008 plant additions are $1,362,500, $1,916,850 and $146,950 respectively versus CWS proposed amounts of $3,532,900, $1,181,200 and $409,400 respectively for the same years.

King City

Recommended Plant Addition Adjustments

Item No.	Project Number and Description		CWS	DRA
1	2850	Upgrade Station 4 booster station	$591,000	$292,500
2	9668	Drill & Equip New Well at Station 13	$856,300	Defer to 2007
3	10925	New storage tank and equip booster at Station 13	$859,500	Defer to 2007
4	13235	Drill & Equip New Well at Station 14	$856,300	$777,000
5	10924	Replace five hydrants	$18,900	Disallow
6	11291	Purchase new vehicle for additional employee	$30,800	Disallow
7	15153	Construct new operations center	$243,000	Defer to next GRC
8	11019	Install storage tank at Station 4	$594,000	Defer to next GRC
9	15003	Purchase new vehicle for additional employee	$31,900	Disallow
10	15234	Develop hydraulic model	$75,000	Defer to next GRC
11	15234	Water supply & facilities master plan	$150,000	Defer to next GRC
12	N/A	Non specific capital budget for 2006	$82,200	$55,000
13	N/A	Non specific capital budget for 2007	$88,700	$56,650
14	N/A	Non specific capital budget for 2008	$95,800	$58,350

C. DISCUSSION

1) Project 2850 – Upgrade Station 4 booster station

CWS proposed $591,000 in plant addition for this specific project in 2006 as a late modification to the capital budget. The company indicated that this project was originally budgeted in 2001 but has been delayed for various reasons until now for completion and put into service. DRA reviewed the justification provided by CWS and agree with the company for the need of this project. This project would provide additional capacity to move water from one zone to another zone in the district where increased demand has occurred due to growth. DRA found that the proposed amount of $591,000 consists of three parts – (a) Pump building and site improvements at $350,000, (b) Mechanical equipment at

$146,000, and (c) Electrical equipment at $95,000. Other than these three brief cost breakdowns, CWS did not provide any additional information such as contractor's bids or actual total costs incurred even though this project is now completed. DRA noted that in the same year CWS has estimated a similar booster station (Project 10925) at Station 13 for a total amount of only $292,500. The total amount of $292,500 also consists of three similar parts – (a) Pump building and site improvements at $87,300, (b) Mechanical equipment at $129,600, and (c) Electrical equipment at $75,600. In the absence of actual total costs incurred or a firm contractor bid, DRA considered the proposed amount of $591,000 excessive when compared to a similar booster station under Project 10925. DRA believed that it is more reasonable to adopt the $292,500 amount since it is a most recent estimate made by CWS. Therefore, DRA recommends that the proposed amount of $591,000 be adjusted to $292,500 for plant addition in 2006.

2) Project 9668 – Drill and equip new well at Station 13

CWS proposed $856,300 in plant addition for this specific project in 2006 and showed a detailed cost breakdown for the total amount. DRA reviewed the justification provided by CWS and agree with the company on the need for this specific project to replace some wells lost due to nitrate problems and to meet increased demand due to growth. DRA sent Data Request CTL-4 in July 2006 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS indicated that this project is still under design and thus no firm construction bids have been secured yet. Also CWS did not list this project in their 2006 capital budget progress report, leading DRA to believe that this project would not be completed in 2006 but rather in 2007. In the review of the detailed cost breakdown, DRA found the site improvement estimate at $189,000 and pumping equipment estimate at $179,100 reasonable but had concern with the well estimate at $488,200. CWS had estimated a monitoring well cost at $97,000 but in its response to the DRA

data request, CWS clarified that the actual cost was only $28,000. DRA calculated that with the monitoring well cost at $28,000 instead of $97,000 and adjusting the construction overhead from $36,000 to $26,000 because of a lower overall construction estimate, the well portion of this project should be $409,000. Therefore, DRA recommends that this project be deferred to 2007 with the total estimate adjusted from $856,300 to $777,000 for plant addition.

3) Project 10925 – New storage tank and equip booster at Station 13

CWS proposed $859,500 in plant addition for this specific project in 2006 and showed a detailed cost breakdown for the total amount. DRA reviewed the justification provided by CWS and agree with the company on the need for this specific project to remedy the current shortfall in storage in accordance with AWWA guidelines and to achieve an acceptable system safety factor. DRA sent Data Request CTL-4 in July 2006 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS indicated that this project is still under design and thus no firm construction bids have been secured yet. Also CWS did not list this project in their 2006 capital budget progress report, leading DRA to believe that this project would not be completed in 2006 but rather in 2007. In the review of the detailed cost breakdown which has four parts, DRA found that (a) the pump building and site improvement estimated at $87,300, (b) the booster pumping equipment estimate at $75,600, (c) the electrical equipment estimated at $129,600 and (d) the 500,000 gallon tank estimated at $567,000 all reasonable. Therefore, DRA recommends that this project be deferred to 2007 with the total estimate of $859,500 allowed for plant addition.

4) Project 13235 – Drill and equip new well at Station 14

CWS proposed $856,300 in plant addition for this specific project in 2006 and showed a detailed cost breakdown for the total amount. DRA reviewed the

justification provided by CWS and agree with the company on the need for this specific project to replace some wells lost due to nitrate problems and to meet increased demand due to growth. DRA sent Data Request CTL-4 in July 2006 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS indicated that this project is under construction with about $300,000 already spent as of the end of July 2006 and based on this progress DRA considered that this project is likely to be completed by the end of 2006. In the review of the detailed cost breakdown, DRA found the site improvement estimated at $189,000 and the pumping equipment estimated at $179,100 both reasonable but had concern with the well estimate at $488,200. CWS had estimated a monitoring well cost at $97,000 but in its response to the DRA data request, CWS clarified that the actual cost was only $28,000. DRA calculated that with the monitoring well cost at $28,000 instead of $97,000 and adjusting the construction overhead from $36,000 to $26,000 because of a lower overall construction estimate, the well portion of this project should be $409,000. Therefore, DRA recommends that this project be adjusted from $856,300 to $777,000 for plant addition in 2006.

5) Project 10924 – Replace five hydrants

CWS proposed $18,900 in plant addition for this specific project in 2006 showing just a brief justification in the capital budget listing. The company indicated that they need to upgrade these five fire hydrants to meet new fire flow and stringent insurance underwriter's requirements but did not show any specific locations on where these hydrants would be. DRA noted that in the same year, CWS has proposed another upgrade of five hydrants under Project 11022 with the same justification but showed exact locations for the five hydrants. DRA believes that the two projects are redundant and Project 11022 should be allowed since it has all the detailed information regarding the locations for the hydrants. Therefore,

DRA recommends that the proposed amount of $18,900 under this project be disallowed for plant addition in 2006.

6) Project 11291 – New vehicle for additional employee

CWS proposed $30,800 in plant addition for this specific project in 2006 saying that the district was granted one additional employee in the last general rate case and CWS will now hire this additional employee in 2006 who will need transportation to perform work in the field. DRA consulted with its own witness who was working on the operation and maintenance expenses in this district to see if an additional employee would be allowed in 2006. The feedback that DRA received was that no additional employee was considered necessary for this district in this general rate case. Therefore, DRA recommends that the proposed amount of $30,800 under this project be disallowed for plant addition in 2006.

7) Project 15153 – Construct new operations center

CWS proposed $243,000 in plant addition for this specific project in 2007 without showing a detailed cost breakdown to support the proposed amount even though DRA's master data request calls for one when the cost estimate of any project exceeds $100,000. CWS provided a brief justification for this project saying that the company has acquired a large lot where they have rebuilt Station 4 booster and the lot can accommodate a new operations center at the same site. Currently CWS operates out of a leased building in King City and pays a monthly rent of $1,600 only. DRA sent Data Request CTL-4 in July 2006 to CWS asking the company to provide a cost benefit analysis and to show a detailed cost breakdown to support the proposed amount. In its response to the DRA data request dated August 14, 2006, CWS indicated that there is no additional information to provide at this time. DRA considered this reply from CWS as totally unresponsive and believed that there is no urgency for CWS to construct a new operations center in this general rate case. Therefore, DRA recommends that

this specific project be deferred to the next general rate case when CWS has an opportunity to present a cost benefit analysis to fully justify the new operations center.

8) Projects 11019 – New storage tank at Station 4

CWS proposed $594,000 in plant addition for this specific project in 2007. For the justification of this project, CWS indicated that it is needed because an existing 250,000 gallon tank at Station 4 does not have enough storage capacity to provide fire protection. CWS explained that this 250,000 gallon tank is capable of providing 2,000 GPM for two hours as required by the local Fire Department but Station 4 is located in an industrial area containing large warehouses that are likely to cause a fire requiring more than two hours to fight. However, during further review of the justification in the workpapers, DRA found that there is another existing 100,000 gallon tank at Station 4 that would need to be replaced in the future but is still in service. DRA believes that this additional existing 100,000 gallon tank should be able to contribute to providing adequate fire protection along with the other existing 250,000 gallon tank and thus there is no urgency to have the proposed new tank in this general rate case. Also, in the review of past budgeted versus actual capital expenditures for this district from 2001 to 2005, DRA found that CWS has consistently spent less than budgeted in each of those years. It seems that there has been a tendency for CWS to propose more projects than they could actually accomplish in this district. With the Station 4 booster already upgraded and a new well at Station 14 to be completed in 2006, followed by another new well, a new storage tank and another booster upgrade at Station 13 to be completed in 2007, CWS already has a lot of major capital projects to accomplish in this general rate case. Therefore, DRA recommends that this project for a new storage tank at Station 4 in 2007 be deferred to the next general rate case.

9) Project 15003 – New vehicle for additional employee

CWS proposed $31,900 in plant addition for this specific project in 2007 saying that the district would need an additional employee in 2007 who will need transportation to perform work in the field. DRA consulted with its own witness who was working on the operation and maintenance expenses in this district to see if an additional employee would be allowed in 2007. The feedback that DRA received was that no additional employee was considered necessary for this district in this general rate case. Therefore, DRA recommends that the proposed amount of $31,900 under this project be disallowed for plant addition in 2007.

10) Project 15234 – Hydraulic Model & Facility Master Plan

CWS proposed $75,000 and $150,000 in plant addition for these two specific projects in 2008 without showing detailed cost breakdowns. In the justification for the projects, CWS cited the potential of significant growth in housing that would increase the population and water demand substantially as the reason for the need for these projects. However, DRA found that growth has begun to slow as the overall housing market has cooled off significantly in the past year. The DRA witness who is working on the revenue portion of this general rate case is forecasting customer growth in this district at an average of only 40 per year compared to CWS forecast of 150 per year. In October 2006 DRA sent Data Request CTL-7 to CWS asking the company to provide a detailed cost benefit analysis of these projects and to show a detailed cost breakdown to support the proposed amounts. In its response to the DRA data request dated October 23, 2006, CWS discussed about the benefits in terms of efficiency and reliability but did not directly address how these projects would benefit the ratepayers. DRA considered this reply from CWS as not responsive and believed that there is no urgency for CWS to pursue these two projects in this general rate case. Therefore, DRA recommends that they be deferred to the next general rate case in the total amount of $225,000 when CWS has an opportunity to show to DRA that these

projects have direct benefits to the ratepayers in this district and that the benefits outweigh the costs.

11) Non-specific Capital Budgets, 2006 to 2008

CWS proposed $82,200, $88,700 and $95,800 respectively in plant additions for non-specifics in the three years from 2006 to 2008. DRA reviewed CWS' methodology and found that CWS has used a rather complex four step trending method to come up with their estimates, using recorded data for inflation and company wide growth factors. In its response to DRA's data request, CWS submitted actual expenditures for non-specifics in the last ten years. DRA reviewed the information and found that the actual expenditure was higher than the budgeted amount in some years but lower than the budgeted amount in the other years. By nature, non-specifics are work to be done based on unforeseen conditions or emergencies and as such, they are very difficult to predict accurately in advance. DRA believes that it would be more reasonable to use the average of the actual expenditures in those past ten years for 2006, adjusted for inflation for 2007 and 2008 (using the latest factors published by DRA). Based on this approach, DRA recommends that the allowable non-specific capital budgets for 2006 to 2008 be $55,000, $56,650 and $58,350 respectively.

C. CONCLUSION

DRA's recommendations have been incorporated in the calculations for DRA's recommended Rate Base as shown in Table 9-1 and Table 9-2.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

PLANT IN SERVICE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	8,131.0	10,261.7	2,130.7	26.2%
Additions				
Gross Additions	1,907.3	1,092.0	(815.3)	-42.7%
Capitalized Interest	35.3	21.7	(13.6)	-38.5%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(2.9)	(2.9)	0.0	0.0%
Net Additions	1,939.7	1,110.8	(828.9)	-42.7%
Plant in Service - EOY	10,070.7	11,372.5	1,301.8	12.9%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	10,070.7	11,372.5	1,301.8	12.9%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

PLANT IN SERVICE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	10,070.7	11,372.5	1,301.8	12.9%
Additions				
Gross Additions	137.4	320.2	182.8	133.0%
Capitalized Interest	2.7	7.5	4.8	178.6%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(2.9)	(2.9)	0.0	0.0%
Net Additions	137.2	324.8	187.6	136.7%
Plant in Service - EOY	10,207.9	11,697.3	1,489.4	14.6%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	10,207.9	11,697.3	1,489.4	14.6%

CHAPTER 8: DEPRECIATION EXPENSE AND RESERVE

A. INTRODUCTION

This Chapter sets forth DRA's analyses and recommendations regarding depreciation reserve and expense for King City District. The tables at the end of the Chapter provide DRA's and CWS estimates for Depreciation Reserve and Expense for Test Year 2007-2008 and Escalation Year 2008-2009.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods used to calculate depreciation reserve and depreciation expense for Test Year 2007-2008 and Escalation Year 2008-2009. Differences between DRA and CWS are due to different plant additions.

C. DISCUSSION

As part of its review, DRA compared the values reported in the GRC application with CWS annual reports to track beginning of year depreciation reserves. CWS used the composite rate of 2.70% for depreciation accrual[3] based on a straight-line remaining life curve using balances for this case consistent with Standard Practice U-4. The differences between CWS' and DRA's estimates are related to the differences in plant additions.

D. CONCLUSION

DRA reviews and accepts the CWS methodology.

[3] CWS Workpapers, WP9C1.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	2,306.9	2,306.9	0.0	0.0%
Accruals				
Transportation Equipment	13.4	13.4	0.0	0.0%
Contributed Plant	14.3	14.3	0.0	0.0%
Other Plant in Service	206.5	252.8	46.3	22.4%
Total Accruals	234.2	280.5	46.3	19.8%
Retirements	(2.5)	(2.5)	0.0	0.0%
Depreciation Reserve - EOY	2,538.6	2,585.0	46.4	1.8%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	2,538.6	2,585.0	46.4	1.8%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	2,515.0	2,572.5	57.5	2.3%
Accruals				
Transportation Equipment	17.8	17.8	0.0	0.0%
Contributed Plant	15.0	15.0	0.0	0.0%
Other Plant in Service	253.8	277.7	23.9	9.4%
Total Accruals	286.6	310.6	24.0	8.4%
Retirements	(2.5)	(2.5)	0.0	0.0%
Depreciation Reserve - EOY	2,799.1	2,880.6	81.5	2.9%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	2,799.1	2,880.6	81.5	2.9%

CHAPTER 9: RATE BASE AND NET TO GROSS MULTIPLIER

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations of rate base for the King City District. Tables 9-1 and 9-2 at the end of this Chapter compare DRA's and CWS' estimates. Differences are due to different estimates of plant additions, depreciation reserves, and working cash allowances.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends a weighted average rate base for King City District as follows in Table 9-A below:

Table 9-A
California Water Service Company
King City District
DRA Recommended Weighted Average Rate Base Summary

	DRA Weighted Average Rate Base ($000)	CWS Weighted Average Rate Base ($000)	CWS Exceeds DRA Amount By ($000)	CWS Exceeds DRA Amount By %
2007-2008	$5,403.1	$6,737.4	$1,334.3	24.7%
2008-2009	$5,241.7	$6,718.9	$1,477.2	28.2%

Tables 9-1 and 9-2 at the end of this report provide a summary of DRA's weighted average rate base and depreciated rate base estimated for King City District.

C. DISCUSSION

1) Materials and Supplies

CWS' request is based on a three-year average amount of $21,600 from 2003-2005. DRA differed by using the five-year average amount of $18,000 based on 2001-2005.

2) Working Cash Allowance

In the previous GRC, CWS had not updated its lead/lag studies since the late 1980s. CWS managers had indicated to DRA that a project was underway to update the lead/lag study. CWS provided the new lead/lag study with the workpapers during this GRC application. DRA reviewed the new lead/lag study and noted that it is comprehensive and well-documented.

CWS produced a lead/lag calculation of working cash that indicates a positive working cash allowance of $92,200 for Test Year 2007-2008 and $96,200 for Escalation Year 2008-2009. DRA disagreed with some of the lag days included in the CWS calculation and recommended some adjustments to CWS' lead/lag calculation and the estimated working cash allowance. DRA recommends positive working cash allowance of $12,700 for Test Year 2007-2008 and $24,900 for Escalation Year 2008-2009.

DRA estimates different lag days than CWS for several of the CWS expenses such as ad valorem taxes, state corporation franchise tax, and federal income tax. DRA calculated the average lag days for ad valorem taxes at 70.5 days instead of the 41 days estimated by CWS. DRA estimated the lag days for State corporation franchise tax and federal income tax to be 93 days. In D.03-09-021 which determined General Office expenditures, CWS and DRA agreed that 93

lag days fairly represents the timing and amount of taxes paid[4]. DRA recommends using 93 days rather than the 37.0 days and 40.9 days, respectively, estimated by CWS.

3) Net to Gross Multiplier

The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue. DRA recommends that the net-to-gross multipliers shown in the table below be applied in developing the revenue requirement change calculation for the Test Year 2007-2008. CWS and DRA used the same methodology to calculate the net-to-gross multiplier.

Table 9-B
California Water Service Company
King City District
Net to Gross Multipliers

DRA Net to Gross Multiplier	CWS Net to Gross Multiplier
1.80751	1.80751

[4] CPUC Decision 03-09-021, dated September 4, 2003, paragraph 4.03

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Serv.	10,070.7	11,372.5	1,301.8	12.9%
Materials & Supplies	18.0	21.6	3.6	20.0%
Working Cash - Lead-Lag	17.2	92.2	75.0	437.0%
Amt withheld from Employees	(0.5)	(0.5)	0.0	0.0%
Wtd. Avg. Depr. Res.	(2,538.6)	(2,585.0)	(46.4)	1.8%
Advances	1,566.1	1,566.1	0.0	0.0%
Contributions	464.5	464.5	0.0	0.0%
Reserved Amort.Intangibles	2.6	2.6	0.0	0.0%
Deferred Taxes	536.9	536.9	0.0	0.0%
Unamortized ITC	9.6	9.6	0.0	0.0%
General Office Alloc	141.9	141.9	0.0	0.0%
Taxes on - Advances	241.5	241.5	0.0	0.0%
Taxes on - CIAC	32.7	32.7	0.0	0.0%
Average Rate Base	5,403.1	6,737.4	1,334.3	24.7%
Interest Calculation:				
Avg Rate Base less work cash	5,403.1	6,624.1	1,221.0	22.6%
x Weighted Cost of Debt	2.89%	2.890%	0.00%	0%
Interest Expense	156.2	191.4	35.3	22.6%
less Cap. Interest	(35.3)	0.0	35.3	-100.0%
Net Interest Expense	120.9	191.4	70.5	58.4%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Service	10,207.9	11,697.3	1,489.4	14.6%
Material & Supplies	18.0	21.6	3.6	20.0%
Working Cash - Lead-Lag	30.7	96.2	65.5	213.3%
Amt withheld from Employees	(0.5)	(0.5)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(2,799.1)	(2,880.6)	(81.5)	2.9%
Advances	1,546.7	1,546.7	0.0	0.0%
Contributions	476.3	476.3	0.0	0.0%
Reserved Amort.Intangibles	3.8	3.8	0.0	0.0%
Deferred Taxes	582.0	582.0	0.0	0.0%
Unamortized ITC	9.2	9.2	0.0	0.0%
General Office Alloc	146.5	146.5	0.0	0.0%
Taxes on - Advances	227.7	227.7	0.0	0.0%
Taxes on - CIAC	28.5	28.5	0.0	0.0%
Average Rate Base	5,241.7	6,718.9	1,477.2	28.2%
Interest Calculation:				
Avg Rate Base less work cash	5,241.7	6,601.6	1,359.9	25.9%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0.0%
Interest Expense	151.5	190.8	39.3	25.9%
less Cap. Interest	(2.7)	0.0	2.7	-100.0%
Net Interest Expense	148.8	190.8	42.0	28.2%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2007 - 2008
AND ESCALATION YEAR 2008 - 2009

Item	DRA	CWS
1) Uncollectibles %	0.29392%	0.29392%
2) 1-Uncoll (100%-line 1)	99.70608%	99.70608%
3) Franchise tax rate	1.19700%	1.19700%
4) Local Franchise (line 3*line 2)	1.19348%	1.19348%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	1.48740%	1.48740%
8) 1-Subtotal (100%-line7)	98.51260%	98.51260%
9) CCFT (line 8 * 8.84%)	8.70851%	8.70851%
10) FIT (line 8 * 35%)	34.47941%	34.47941%
11) Total taxes paid (ln 7+ln 9+ln 10)	44.67532%	44.67532%
12) Net after taxes (1-line 11)	55.32468%	55.32468%

Net-to-Gross Multiplier (1/line 12) = 1.80751 (DRA)

1 Net-to-Gross Multiplier (1/line 12) = 1.80751 (Utility)

CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

This chapter presents DRA's analyses and recommendations on customer service.

B. SUMMARY OF RECOMMENDATIONS

DRA finds the numbers of service complaints low and customer service in this district satisfactory after reviewing CWS' filings and responses to DRA data requests.

C. DISCUSSION

Table 10A presents a summary of CWS' customer service complaints received from 2001 through 2006. It also contains the number of complaints as a percentage of the total number of customers in the King City district.

Table 10-A
King City Customer Service Complaints

Type	2001	2002	2003	2004	2005	2006*
Taste and Odor	0	1	1	0	0	1
Color	0	0	0	0	1	0
Turbidity	0	0	2	0	0	0
Worms/Other Objects	0	0	0	0	0	0
Pressure	0	0	5	0	0	0
Illness-Waterborne	0	0	0	0	0	0
Air	0	0	0	0	0	0
Leaks	0	0	0	0	0	0
Other	0	5	0	0	0	0
Total	0	6	8	0	1	1
No. of Customers	2,213	2,234	2,251	2,261	2,313	2,434
Total as % of Customers	0.00%	0.27%	0.36%	0.00%	0.04%	0.04%

* Up to October 2006

CWS' records indicate that the numbers of service complaints are low relative to the number of customers in the district.

D. CONCLUSION

DRA recommends that the Commission finds CWS' customer service to be satisfactory.

CHAPTER 11: RATE DESIGN

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations on rate design for CWS' rate increase application for its King City District. The present rates for General Metered Service used by CWS in their application became effective on January 1, 2006 and September 9, 2003 for Service to Privately Owned Fire Protection Systems. The proposed rates are those found in CWS' workpapers.

CWS currently provides water service in its King City District under the following schedules:

KC-1	General Metered Service
KC-4	Service to Privately Owned Fire Protection Systems

B. SUMMARY OF RECOMMENDATIONS

CWS proposes to design rates for General Metered Service to recover 50 percent of the fixed costs through the service charge and the remainder through increasing quantity rates. The method for General Metered Service meets the requirements set forth in Decision D.86-05-064. CWS proposes to use the Service Charge ratios from CWS' 1991 general rate case filings. DRA does not object to these ratios. However, DRA's proposed rates differ from CWS' because of different recommended revenue requirements.

CWS' other rate change request involves implementation of a tiered rate structure (increasing block rates) along with a Water Revenue Adjustment Mechanism (WRAM) and Full Cost Balancing Accounts (FCBA). DRA prepared its analysis of rate design with the understanding that CWS' current GRC would be divided into two phases with the second phase addressing CWS' requests for increasing block rates, WRAM and FCBA. CWS subsequently submitted a

compliance filing A.06-10-026, requesting the Commission to address these issues. CWS submitted its compliance filing on October 26, 2006. Consequently, in this report, DRA addresses rate design from CWS' approved rate design and defers addressing increasing block rates, WRAM and FCBA to the compliance filing. DRA recommends those issues be deferred to the compliance filing A.06-10-026. Thus, in DRA's analysis of CWS' proposal, DRA continues to assume the absence of WRAM and FCBA and a rate design that recovers 50 percent of the fixed costs through the service charge and the remainder through a single quantity rate.

C. DISCUSSION

Concerning Privately Owned Fire Protection Service, CWS proposes to continue charging for Privately Owned Fire Protection Service according to the size of the connection. DRA finds this approach reasonable because the proposed rates are consistent with rates approved for other CWS' districts. DRA's proposed rates will differ from CWS' because DRA recommends a different revenue requirement.

D. CONCLUSION

As the vast majority of CWS' proposed rate design will be addressed in the compliance filing, DRA concludes that for this general rate case, it would be prudent for the Commission to adopt the CWS rate design from its last GRC. Notwithstanding the deferral of WRAM and FCBA to the compliance filing, the adopted rates will differ from CWS' because DRA recommends a different revenue requirement. DRA recommends the Commission adopt rates for CWS based on DRA's revenue requirement.

CHAPTER 12: SPECIAL REQUESTS

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on the special requests made by CWS for the King City District.

B. SUMMARY OF RECOMMENDATIONS

(a) **CWS requests a finding from the Commission that the district provides water service that meets or exceeds state and federal drinking water standards and General Order 103 (Exhibit F, page 2).**

DRA has thoroughly reviewed the latest Department of Health Services (DHS) annual inspection report and the cover letter included in Exhibit F, Testimony of Chet Auckly, Director of Water Quality and Environmental Affairs at CWS. DRA found that CWS has covered the following three important aspects of water quality in detail to show that: 1) King City District has not exceeded any Maximum Contaminant Level (MCL) or deviated from accepted water quality procedures since the last general rate case; 2) DHS has not cited this district since the last general rate case; 3) this district has complied with all federal and state drinking water standards.

DRA also contacted DHS in writing directly in early October 2006 asking the responsible agency engineers who have expertise in water quality to review and to indicate any concerns they may have regarding the water quality report for this district as submitted by CWS dated July 2006. DRA did not receive any negative comments from DHS by the end of October 2006.

CWS has made a thorough water quality presentation for this district in this proceeding. CWS has made substantial progress in improving water quality in this

district. DRA agrees that CWS has complied with applicable water quality standards in this district during the most recent three-year period.

(b) The Water Revenue Adjustment Mechanism request is excluded from the scope of this proceeding.

(c) The offset rate increase to reflect General Office allocation request is excluded from the scope of this proceeding.

(d) **CWS is requesting an early, *ex parte* order to update Rule 15 to increase the water supply special facilities fee in this district. (Exhibit E, page 6)**

DRA recommends that for the three forward looking years, 2007, 2008, and 2009, that the growth for King City District be 40 connections per year rather than 150 connections, as requested by CWS. DRA further recommends that lot fees be $1,764 per customer, as shown in CWS' filed work papers. This equates to $70,560 in lot fees for each of the three forward looking years. This translates to adoption of costs of one well for growth. Moreover, DRA recommends that the aforementioned $70,560 in lot fees be included in Advances for Construction per Decision (D.) 05-12-020. DRA does not object to CWS' request for the below described Contributions in Aid of Construction and Advances for Construction ("CIAC") for the 3 year period 2007 through 2009.

(i) For the King City District, CWS requests an increase in customer growth of 150 connections, and requests a per lot fee of $1,000 which equates to $150,000 for the test year. For its CIAC, CWS forecasts an increase of $12,500 for 2007, $11,800 for 2008, and $12,500 for 2009. For its Advances for Construction, CWS forecasts a net decrease of $19,400 for each of the future years, i.e. 2007, 2008, and 2009.

(ii) DRA reviewed the recorded amounts for King City District for 2001 through 2005, and compared the recorded amounts to what CWS requests. The results were as follows:

(1) CWS recorded, in the filed Application, an increase to CIAC in the amount of $89,400 over five years from 2001 to 2005, which equates to an average increase of $17,880 per year.

(2) CWS reflects, in its Application, recorded net decreases in Advances for Construction of $80,800 for the 5 year period 2001 through 2005, which equates to approximately $16,200 per year in decreases. Although there were additions, i.e. deposits recorded to Advances for Construction, offsetting entries pertinent to refunds and transfers did transpire. Therefore, net decreases were booked to this account. Similar forecasts for refunds and transfers are reflected in CWS' request.

(iii) CWS' audited information showed that for the record period CWS had 58 customers served by main extensions in 2001 and 179 customers served by main extensions in 2005, for an increase of 121 customers in a 4 year time frame. CWS had $81,454 recorded in Advances for Construction in 2004 only. The recorded information confirms to CWS' audited records.

(iv) DRA's recommendations, as summarized above, are based on the results of its audit and analysis of recorded information for the 5 year record period, 2001 through 2005.

(v) DRA is in accord with what CWS requests in CIAC and Advances for Construction for the three year forward looking period. However, DRA forecasts a different amount for lot fees, as described above, than requested in accordance with the Apple Valley Ranchos Water Company in D. 05-12-020. Specifically, D. 05-12-020 states that for Apple Valley's Rule 15, the cost of all

necessary facilities to serve new customers, including wells, tanks, and treatment facilities, when clearly attributable to new customers, should be recovered in the facilities charge and not be imposed on the existing customer base.

(e) GO Synergy Memorandum Account

CWS requests to amortize the General Office synergies memorandum account adopted in D. 03-09-021 and the merger savings established in D. 04-04-041. DRA reviews and agrees with CWS' request to amortize $66,850 booked in GO synergy memorandum account.

(f) **CWS requests to amortize its purchased power balancing account in compliance with ordering paragraph 3 of D. 06-04-037.**

As of June 30, 2006, the balancing accounts included in CWS' Exhibit I shows an over collection of $10,031 or 0.69% of the annual revenue. DRA reviewed and agreed that the balancing account should be amortized.

Ordering paragraph 3 of D. 06-04-037 states that, "Class A water utilities shall report on the status of their balancing accounts in their general rate cases and shall propose adjustments to their rates in that context to amortize under-or over-collections in those accounts subject to a reasonableness review. They also may propose such rate adjustments by advice letter at any time that the under-or over-collection in any such account exceeds two percent (2%) of annual revenues for the utility or a ratemaking district of the utility."

CWS' request to amortize its purchased power balancing account is in compliance with ordering paragraph 3 of D. 06-04-037.

(g) **CWS is requesting an order allowing them to capitalize certain well repair costs and amortize those improvements over the life of the well. (Exhibit E, page 8)**

CWS made a special request to capitalize well refurbishment. CWS wanted the Commission to approve an order allowing CWS to record well refurbishment costs as capital items depreciable over the remaining life of the well. In Data Request JWS-6, DRA requested information regarding CWS request to change its estimating methodology related to well refurbishment. In its response to DR JWS-6, CWS indicated that they had refurbished Well 8-01 in King City District during 2004-2005.[5] CWS identified costs associated with both "well rehabilitation" and "well treatment". The work involved in "well rehabilitation" included pump removal, well inspection, well cleaning by brush and chemical, chemical removal and neutralization, well development and pump re-installation. That work cost $84,558. Well treatment was performed during 2005 at a cost of $78,116. "Well treatment" involved hiring consultants to analyze the well treatment needs, hiring a contractor to remove the pump, clean the well with chemicals, and re-install the pump.

In DRA's Data Request JWS-6, DRA requested CWS documentation that provides evidence that well refurbishment at Cal Water has extended the life of several wells. CWS had asserted in its written testimony[6] that well refurbishment expenses should be capitalized because well refurbishment increased production closer to design capacity, reduced concentrations of water quality contaminants, removed bacteria or other appropriate measures. However, CWS did not have a previously prepared analysis responsive to that data request. The Company would

[5] CWS response to DRA Data Request JWS-6, dated October 31, 2006.

[6] CWS Results of Operations Report, Chapter 5, page 31

have needed to perform additional analysis during the discovery period of this GRC to provide that evidence.

Therefore, DRA recommends that CWS should amortize these well refurbishment expenses over ten years. DRA considers that the specific maintenance activities involved in the King City well rehabilitation or well refurbishment described by CWS are examples of planned maintenance activities and are appropriate to be expensed rather than capitalized. DRA asserts that it is reasonable to amortize the specific expenses, described in this situation, over a longer period of time because the maintenance activities involved are more extensive than the typical annual well maintenance. Also, DRA asserts that periodically performing more extensive maintenance of wells is a form of preventive maintenance that assures wells can continue to perform their intended function. Amortizing these planned maintenance activities over ten years results in annual amounts of $8336 and $8241, respectively, for the well refurbishment and well treatment.[7] Consequently, DRA recommends that CWS record expenses for well refurbishment and well treatment as maintenance expenses and amortize those expenses over ten years.

[7] CWS King City District Work Papers, Table 5-B5, Contracted Maintenance Expenses.

CHAPTER 13: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

On or after November 5, 2007, CWS should be authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2008 authorized by the Commission, or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2007, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision, or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-A. The requested step rates should be reviewed by the Commission's Water Division (Division) to determine their conformity with this order, and should go into effect upon the Division's determination of compliance. The Division should inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than 30 days after filing. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year an attrition adjustment should be granted for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues, with the revenue change to be calculated by multiplying forecasted inflation rate by DRA and operational attrition plus financial attrition times adopted rate base in 2008 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2008-2009 and 2009-2010. To obtain the increases in these years, D. 04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
KING CITY DISTRICT

Item	DRA 2008-09 (Thousands of $)	DRA 2009-010	% increase	
Operating revenues	1,882.9	1,879.8	-0.2%	Esc. Factor
Operation & Maintenance	527.83	536.81	1.7%	1.017
Administrative & General	69.97	71.23	1.8%	1.018
G.O. Prorated Expense	263.30	267.78	1.7%	1.017
Depreciation & Amortization	253.80	258.11	1.7%	1.017
Taxes other than income	105.00	106.79	1.7%	1.017
State Corp. Franchise Tax	38.99	36.87	-5.4%	
Federal Income Tax	189.06	180.70	-4.4%	
Total operating expenses	1,448.0	1,458.3	0.7%	
Net operating revenue	434.9	421.5	-3.1%	
Rate base	5,239.8	5,078.3	-3.1%	
Return on rate base	8.30%	8.30%	0.0%	

APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

QUALIFICATIONS AND PREPARED TESTIMONY
OF
YOKE W. CHAN

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Yoke W. Chan and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Senior Utilities Engineer in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Science Degree in Civil Engineering. I am a registered civil engineer in the State of California.

Q3. Briefly describe your educational background and professional experience.

A3. I have been employed by the Commission for many years and have testified and worked on many general rate case proceedings, offset rate cases, transfer and compliance matters of large water utilities. I have also worked on ECAC proceedings for the energy utilities.

Q4. What is your responsibility in this proceeding?

A4. I am the Project Manager for this proceeding and responsible for Chapters 1, 13 and portion of 12 of DRA's Reports on the Results of Operations for Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Westlake and Willows districts.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am in the Water Branch of the Division of Ratepayer Advocates as a Public Utility Regulatory Analyst IV.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for three years. Previously, I was employed by the Department of Ecology's Water Quality Program for the State of Washington.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Result of Operation tables for Bakersfield, King City, and Selma Districts, Chapter 2 testimony, Water Consumption and Operating Revenues, for all eight districts, and the Selma district Special Request (F) for Phase-in revenue requirement.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
VIBERT GREENE

Q.1. Please state your name and address.

A.1. My name is Vibert Greene. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Utilities Engineer in the Division of Ratepayer Advocates Water Branch.

Q.3. Please briefly describe your educational background and work experiences.

A.3. I have a: Ph D in research in Pressure Driven Ultra-filtration and Master of Engineering at the University of California, Berkeley; Masters of Science in Engineering from San Jose University; Bachelor of Science in Mechanical Engineering and Bachelor of Arts in Mathematics from the University of Hawaii, Honolulu. I also completed Management training at Leigh University. I attended both the NARUC Western Utility Rate School Seminar in the basics of utility ratemaking for regulated entities and the National Regulatory Research Institute Seminar on Public Utility Regulation in the 21st Century.

After graduation from Berkeley, I joined the California Public Utilities Commission. I am presently employed as a Utilities Engineer in the Ratepayer Representation Branch of the Water Division dealing with class A Water Utilities. Since joining the Commission in 1998 as a Utilities Engineer, I have worked on several Class A, B and C Water Utilities' Rate Cases. My duties and responsibilities covered all aspect of a Rate Case including but not limited to: Rate Design, Rate Base, Operation and Maintenance Expenses, Taxes-General, Administration and General Office Expenses, Depreciation, Revenues and Utility Plant in Service. In addition, I have worked on several formal proceedings including evaluation studies and other investigations initiated by the Commission. My duties and responsibilities also require participation in Public Hearings, giving expert testimony before the Commission, conducting Field Audits of Utilities Plant and writing Reports.

Prior to joining the Commission, I worked in the private sector for 20 plus years. My work experiences included several years in Design Engineering, Process Engineering, Research and Development, Program Management and Project management. I have managed several special projects; including several years Project Management experience--managing projects for an International Consortium which consisted of Companies from Japan, Italy and France. Five years Program Management as the Test Director for a National Consortium which consisted of five-agencies located in three States. I am also a part-time Mathematics instructor at the Evergreen College in San Jose, and hold two mechanical device patents.

Q.4. What is your area of responsibility in this proceeding?

A.4 In the Results of Operations I am responsible for a preparing Chapter 3—Operation and Maintenance, and Chapter 6—Income Taxes.

Q.5. Does that complete your prepared testimony?

A.5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEASON D. WILLIS

Q.1. Please state your name and business address.

A.1. My name is Cleason D. Willis. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Master of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic, and reasonableness analysis for various Electrical, Gas, Water, and Telecommunications operations. I have written reports, and testified regarding the validity of my findings and recommendations concerning my
analysis for various utility proceedings.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for the Administration and General Expenses, and Taxes Other Than Income chapters for the California Water Service Company General Rate Case.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEMENT T. LAN

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Clement T. Lan and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a licensed Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Science degree in Mechanical Engineering from the California Polytechnic State University at San Luis Obispo in June 1972 and a Masters of Science degree in Mechanical Engineering from the University of California at Berkeley in December 1973. I have taken various courses on ratemaking topics within the last eight years at the commission.

Q.3 Please summarize your business experience.

A.3 After graduation from the University of California at Berkeley, I first worked in the private industry as a design engineer on industrial facilities for about four years and then worked in the federal government as a project engineer on general facilities including utility systems for about twenty years. I joined the Commission in January of 1999 and have worked on various Class A rate cases involving some administrative & general expenses and operation & maintenance expenses and numerous utility plant-in-service, depreciation, and ratebase issues.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for Chapter 7 (Plant In Service) for the Bakersfield, King City, Selma, South San Francisco and Westlake districts of California Water Service Company in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
JOYCE W. STEINGASS, P.E

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Joyce W. Steingass. My business address is 505 Van Ness Avenue, San Francisco, California. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I am a graduate of the University of California, Berkeley, with a Bachelor of Science in Mechanical Engineering. I am a licensed professional Mechanical Engineer in the State of California. I have been employed by the California Public Utilities Commission since 2005. My current assignment is within the Division of Ratepayer Advocates where I work on Class A General Rate Cases. Prior to joining CPUC, I was a management consultant at Barrington-Wellesley Group, performing investigations of energy companies for regulatory Commissions in other states. Before that I was a utility consultant for Navigant Consulting. Earlier in my career, I was employed by Pacific Gas and Electric Company for seventeen years where my most recent position was the Director of Distribution Quality Assurance, in charge of audits related to gas and electric distribution operations. During my career with PG&E, I was the Pipeline Replacement Superintendent for PG&E's San Francisco Division for three years. That project entailed overseeing the replacement of cast iron and pre-1930s steel natural gas distribution pipelines.

Q3. What is your responsibility in this proceeding?

A3. I am the witness responsible for Utility Plant in Service and Depreciation Expenses and Reserve. I prepared the following chapters of DRA's report:

- Chapter 7 – Plant in Service for Dixon, Oroville and Willows Districts
- Chapter 8 – Depreciation Expenses and Reserve
- Chapter 9 – Rate Base and Net to Gross Multiplier;
- Chapter 12 – Special Requests related to Water Quality in Dixon, Oroville and Willows Districts and Well Refurbishment in King City and Willows Districts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
KATIE LIU

Q.1. Please state your name and business address.

A.1. My name is Katie Liu. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission - DRA Water Branch – as a Public Utilities Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I am a graduate of the University of California, Los Angeles with a Bachelor's degree in Economics. I have been employed by the California Public Utilities Commission since 2006. My current assignment is within DRA – Water where I work on Class A General Rate Cases.

Q.4. What are your responsibilities in this proceeding?

A.4. I am responsible for DRA's Water Branch Report On Customer Service For California Water Service Company in this proceeding.

Q.5. Does this conclude your prepared testimony?

A.5. Yes.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TATIANA OLEA

Q. Please state your name and business address.

A. My name is Tatiana Olea. My business address is 505 Van Ness Avenue, San Francisco, California 94102.

Q. By whom, and in what capacity are you employed?

A. I am employed by the Public Utilities Commission of California (CPUC) as a Public Utilities Regulatory Analyst (PURA) IV in the Division of Ratepayer Advocates, Water Branch.

Q. Please summarize your educational background and work experience.

A. In 1998, I completed a graduate program at Syracuse University where I received a master in Public Administration with a concentration in Public Finance from the Maxwell School. My undergraduate degree is in Anthropology and Sociology from Saint Mary's College in Moraga, California. After completing graduate school, I joined the government practice of PriceWaterhouse (now PriceWaterhouseCoopers) and later worked as an analyst for the Federal Reserve Bank of San Francisco. After the Federal Reserve, I returned to consulting with Bartle Wells Associates of Berkeley, CA., where I specialized in water and sewer rate design and revenue bond financing. Since leaving the Federal Reserve in 2001, I have worked on consulting assignments with public agencies, engineers, and other professionals to evaluate financing alternatives for public projects.

My experience includes extensive rate design and financing work for municipal water and sewer utilities. I have developed water, sewer, and recycled water rate structures including designing tiered rate structures. I prepared long-range financial plans for utilities and prepared preliminary official statements and related documents for municipal bond sales. Last year, I served as Senior Analyst in two utility revenue bond financings totaling over $115 million. I have also developed and implemented development impact fees and user charges.

In municipal rate design cases, I served as expert witness and testified in front of governing bodies during public hearings approximately 20 times.

I joined the staff of the CPUC in September of this year. My current assignments include rate cases, evaluation of tiered rates and analyzing the impact of decoupling (WRAM). I am project lead for the current California Water Services Company compliance filing and I am sponsoring rate design testimony in the CalAm GRC.

Q. What is the purpose of your testimony today?

A. I am sponsoring Chapter 11, Rate Design, of the DRA's Report on CWS' GRC.

Q. Does that complete your prepared direct testimony in this proceeding?

A. Yes, at this time.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PAMELA T. THOMPSON

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Pamela T Thompson and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Arts degree in Mathematics and Spanish Literature from Dominican University in San Rafael in May 1974 and a Masters of Business Administration degree in Accounting from Golden Gate University in June 1978. I am also a licensed Certified Public Accountant in the State of California.

Q.3 Please summarize your business experience.

A.3 I graduated from Dominican College with a Bachelor of Arts degree in Mathematics and Spanish Literature in 1974. I subsequently graduated in June 1978 from Golden Gate University with a Master of Business Administration degree in Accounting. I am a licensed Certified Public Accountant in the State of California. I joined the staff of the California Public Utilities Commission in August 1976. In my capacity as a Financial Examiner, I have examined the financial records of various utilities under the jurisdiction of the Commission, including gas, electric, and water utilities. I have testified numerous times before the Commission.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for portion of Chapter 12 for the King City, Willows, Oroville and Dixon districts respectively, in the areas of Contributions, Advances and Lot Fees in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.